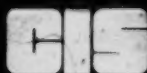


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H.R. 2672—VETERANS' HOUSING REHABILITATION AND PROGRAM IMPROVEMENT ACT OF 1987

HEARING BEFORE THE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS OF THE COMMITTEE ON VETERANS' AFFAIRS HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

FIRST SESSION

JUNE 23, 1987

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H.R. 2672—VETERANS' HOUSING REHABILITATION AND PROGRAM IMPROVEMENT ACT OF 1987

Tuesday, June 23, 1987

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 1 p.m., in room 334, Cannon House Office Building, Hon. Marcy Kaptur (chairman of the subcommittee) presiding.

Present: Representatives Kaptur, Smith of New Hampshire, Davis and Patterson.

OPENING STATEMENT OF CHAIRWOMAN MARCY KAPTUR

Miss KAPTUR. The Subcommittee on Housing and Memorial Affairs will be in order.

During the past several months the subcommittee has held extensive hearings on the VA Home Loan Guaranty Program. We've heard from many witnesses who offered their insight and recommendations on this very valuable and important program, both here in Washington and in the Nation.

H.R. 2672, which I introduced on June 11th, is a composite of many of these views. I believe it to be one of the most comprehensive bills of its kind since the inception of the original VA Home Loan Guaranty Program. It approaches the program not only from the perspective of assisting veterans to get homes, but it's also geared toward helping veterans to keep those homes. Toward this end, the bill focuses on improved servicing through various means. Increased servicing on delinquent loans should result in fewer foreclosures. This will not only help veterans to keep their homes, but will reduce the Government's costs associated with foreclosures.

I was very pleased to note that the House Appropriations Committee has recommended both a restoration in the Department of Veterans' Benefits employment levels, and has added \$2 million for housing counseling activities to help delinquent borrowers retain ownership of their homes. This money will help us to carry out the servicing aspects of this bill.

In addition, the bill provides a uniform guarantee of 30 percent for single-family, condominiums, and manufactured housing loans. This will help veterans in their efforts to purchase homes in higher cost areas, and will treat all veterans equally. Under current law, a

veteran with a \$50,000 loan could be liable for \$27,500, the same as a veteran who might have taken out a loan for over \$100,000.

The VA's property inventory and subsequent property disposition is also addressed. The June 14th edition of the Houston Post advertises an auction on VA-foreclosed properties later this month. As a matter of fact, the article states that the VA is giving away two free properties to registered bidders. No other purchase is necessary. This concerns me, as well as other members of the committee. Instead of doing this, I believe it is more appropriate to use some of these properties for the homeless, train veterans under the jobs bill to rehabilitate them, or offer fix-up loans as incentives to move these properties.

In regard to the Loan Guaranty Revolving Fund, one of the provisions contained in this measure is geared toward building up the loan portfolio in an effort to assure future solvency. In addition, the 1 percent funding fee is extended for 2 years; it is my intention, however, to look at other alternatives in the future.

The subcommittee's agenda includes amending and marking up this measure on July 14th. I look forward to hearing all of your comments on this bill, and in the interests of time I would just like to state for the record that it would be greatly appreciated by the Chair if the Veterans' Administration could be limited to 10 minutes of official oral testimony, with the remaining full testimony being submitted for the record; and all other witnesses, 5 minutes of oral testimony in order that we can allow full time for questions. We will certainly submit all remarks for the record, and I will leave the record open for other members of the committee, including my ranking minority member, Mr. Burton, at such time as they would wish to submit them.

[The prepared statement of Chairwoman Marcy Kaptur appears on p. 39.]

Miss KAPTUR. I would like to begin by calling as our first witness Mr. Grady Horton, the Deputy Chief Benefits Director for Program Management of the Veterans' Administration.

We welcome you to the subcommittee. I understand, Mr. Horton, this may be one of the first times that you have appeared before this subcommittee, and we look forward to your testimony. I think if you want to introduce the other gentlemen that have accompanied you, that would be wonderful.

STATEMENT OF GRADY W. HORTON, DEPUTY CHIEF BENEFITS DIRECTOR FOR PROGRAM MANAGEMENT, VETERANS' ADMINISTRATION; ACCOMPANIED BY: KEITH PEDIGO, DIRECTOR, LOAN GUARANTY SERVICE, AND JAMES P. KANE, ASSISTANT GENERAL COUNSEL

Mr. HORTON. Thank you, Madam Chairwoman. On my left is Keith Pedigo, Director of our Loan Guaranty Service, and on my right is James Kane, who is our Assistant General Counsel.

This is my first opportunity to testify before your committee, and I appreciate that you gave me 10 minutes because they tried to cut my summary statement down as much as they could; and with all the provisions in the law it was very difficult to do it in five, so maybe I can make it in 10.

Miss KAPTUR. Beautiful.

Mr. HORTON. I am pleased to appear before you today and present the views of the VA on H.R. 2672.

Section 2 of H.R. 2672 would amend 38, U.S.C. to provide that the VA may sell vendee loans with recourse only if such loans are sold at par or above; that is, for not less than the full unpaid balance of the loan. VA is opposed to this amendment.

The price at which VA is able to sell its loan portfolio depends upon a number of market factors, including the current market interest rates and the interest rate of the loans being sold. VA must have the administrative flexibility to turn loan assets into cash when the Administrator determines such action is in the best interests of the Government.

Section 3(a) would extend the existing 1 percent VA loan fee for 2 years. The new expiration date would be September 30, 1989. Rather than a simple 2-year extension as the bill proposes, Madam Chairwoman, VA urges that the fee be made permanent and increased from 1 percent of the loan to 2.5 percent of the loan amount.

Section 3(b) of the bill would make a technical amendment to the loan provisions regarding surviving spouses. We agree with this proposal.

Under Section 3(c), the Administrator would be required before the start of each fiscal year to estimate the total income and obligations of the Loan Guaranty Revolving Fund. If the Administrator estimates that the fund will be solvent for the coming year, collection of the loan fee will be suspended for that year. We are opposed to that proposal.

Many factors, such as changes in economic conditions and interest rates, affect the revolving fund. VA does not consider it equitable for some veterans to be required to pay the fee, while other veterans will not have to pay this fee based upon the year in which the veteran closes his or her loan.

Section 4 would change the guaranty on both conventionally-built and manufactured home loans to 30 percent of the loan amount, with no maximum. We are strongly opposed to this proposal. Under this proposal, there would be no maximum guaranty. For example, on a \$200,000 loan the Government's liability would be \$60,000 rather than the current \$27,500. If the guaranty was 30 percent of the loan with no limitation, VA could expect to guarantee a significant number of large, no-down-payment loans, thereby substantially increasing the Government's contingent liability and further threatening the solvency of the fund.

We further believe that decreasing the guaranty to 30 percent would have the unintended result of hurting lower income veterans. On a \$40,000 loan the current guaranty is \$24,000. Under the bill, the guaranty would be only \$12,000. In such a case, accrued interest on a loan in default would rapidly increase the debt to the point where it would not be cost-effective for VA to accept conveyance of the property. This may result in lenders being unwilling to make smaller loans, thereby making it more difficult for low-income veterans to secure housing.

Section 5 would require that upon receiving notice of a veteran's default, the VA contact the veteran and provide him or her with a

notice of alternatives to foreclosure. We are opposed to this section. In all cases, VA makes an effort to contact veterans in default and ensure that appropriate loan servicing is conducted by both the loan holder and the VA. Two of the alternatives to foreclosure specified in Section 5 exist under current law; that is, a deed-in-lieu, or a loan refunding. VA now encourages the deed-in-lieu process in all appropriate cases. Likewise, VA reviews every default prior to foreclosure to determine whether refunding would be appropriate.

We must stress that providing a deed-in-lieu and having VA refund a loan in default are not vested rights of veteran borrowers; rather, they are tools that the VA may use to assist veterans when, in the Administrator's discretion, doing so would be in the best interests of the Government.

Section 6 would permit the VA to establish an interest cutoff date when foreclosure is delayed by VA or, as a result of forbearance, granted at VA's request. We have no objection to this provision.

Section 7 would establish a direct loan program for veterans residing in American Samoa. We strongly oppose this provision. In recent years, direct loans have been used only to assist disabled veterans who qualify for specially-adapted housing. We do not support the expansion of our current direct loan program to non-service disabled veterans.

Due to the unique real property laws in American Samoa, private lenders have been unwilling to make loans to persons residing in that territory. VA has previously suggested that the Government of American Samoa should establish a direct loan program for its citizens. Assuming the requirements of Title 38 could be met, such as lien requirements, loans made to eligible veterans could then be guaranteed by the VA. We do not favor creating a special VA direct loan program for residents of one area when their needs can best be addressed by local government.

Section 8 would make two amendments relating to occupancy requirements. Section 8(a) of the bill would permit a veteran who had been transferred and no longer occupied the home to obtain interest rate reduction refinancing loans. The VA does not object to this program.

Section 8(b) of the bill would provide that a person on active duty in the Armed Forces would be deemed to occupy a property for VA loan purposes if the spouse and all the dependent children of the service member actually occupied the property. This provision is more stringent than our current procedures. VA liberally construes current occupancy requirements, and looks primarily to the occupancy of a spouse in cases involving service members on distant assignments. The requirements in 8(b) that the spouse and all of the service member's dependent children occupy the property could cause VA to disapprove some loans that are currently approved.

Section 9 would authorize the Administrator to enter into agreements with certain organizations or political subdivisions to sell VA-acquired properties for use by those subdivisions as shelter, primarily for homeless veterans and their families. This section appears to meet most of the VA requirements to protect both the program and the Loan Guaranty Revolving Fund with minor technical

changes, which are explained in my written testimony. We are in favor of that.

Section 9(b) of the bill would seek to promote the training of veterans under the Veterans' Job Training Act. This proposal would permit the Administrator to make VA-acquired properties available at discounts of up to 25 percent of fair market value to purchasers who agree to use veterans participating in VJTA programs in rehabilitating the residences.

We strongly object to this proposal. The Veterans' Administration is not proposing to continue the VJTA program. Even if the VJTA program is extended, as is being considered by Congress, we would have reservations about the merits of this proposal. The purpose of acquiring and reselling properties is to minimize VA's losses from foreclosure of guaranteed loans. This proposal would increase these losses.

Section 10 would authorize VA to include in vendee loans additional monies to be used to rehabilitate the properties purchased from VA. We are opposed to this section.

Implementing Section 10 would require diverting loan guaranty revolving funds and staff time from our primary mission of serving veterans. We cannot favor such a diversion, even though we realize the worthy goal.

Section 11 would require that when a veteran sells a property subject to a VA guaranteed loan to a person assuming such loan, the veteran notify the loan holder in advance and that the holder approve the assumer from a credit and income standpoint. We believe this proposal requires further study. Since our initial review of this proposal brings up both pros and cons, we prefer not to state a position at this time.

Section 12 would grant the Administrator discretionary authority to assist certain veteran homeowners who are in temporary financial distress. We are strongly opposed to this section. We believe that a new Federal assistance program based on direct loans to chronically-delinquent borrowers is not warranted and would drain resources from the revolving fund.

Section 13(a) would specify certain qualifications a person must meet to be designated as a fee appraiser. This would codify existing VA practice, and we have no objection to this proposal.

Section 13(b) would specifically authorize the Administrator of Veterans' Affairs to establish an appraisal system whereby appraisal reports completed by VA-designated fee appraisers would be received and reviewed by approved lenders without VA staff involvement. We favor this amendment.

Section 14 would exclude from a veteran's debt to the Government following foreclosure of a guaranteed loan certain interest and costs if the veteran is offered a deed in lieu of foreclosure and the Administrator refused to accept such a deed. We are strongly opposed to this proposal.

As I testified with regard to Section 5 of this bill, accepting a deed in lieu of foreclosure is an option open to the administrator. We encourage deeds-in-lieu in appropriate cases; however, they are not appropriate in all cases.

Madam Chairwoman, you also requested that the VA discuss two additional items. The first item is a proposed pilot program for VA-

guaranteed adjustable rate mortgages in one Regional Office. We favor this proposal. The other proposal is for a 1 percent user fee for persons assuming VA loans. We favor this proposal in concept; however, as we are proposing a 2.5 percent fee for veterans, we would suggest a 2.5 percent fee for assumptions as well.

I'll be glad to answer your questions now, Madam Chairwoman.

[The prepared statement of Mr. Horton appears on p. 42.]

Miss KAPTUR. Thank you, Mr. Horton, very much, and also for staying within the time limit.

If I have listened and read your statement correctly, you have opposed just about every single major provision of this bill that has been designed to help veterans. You specifically have opposed extending the 1 percent funding fee, and you would rather go to 2.5 percent. You opposed the mandatory loan servicing provisions in the bill. You opposed the proposal for guarantees for higher-priced homes. You opposed limiting liability when a veteran offers a deed in lieu of foreclosure. You and the VA have opposed efforts to help American Samoan veterans to get homes. You have opposed job training for veterans who need such training. You have opposed the release of liability to the veteran whose home loan is assumed, and you have spoken against the VJTA program, the Veterans' Jobs Training Act.

I guess, Mr. Horton, my basic question to you is, do you no longer consider the Home Loan Guaranty Program to be a benefit?

Mr. HORTON. Yes, Madam Chairwoman, I do. I think if I could summarize our opposition to most of the provisions that you've mentioned, it is basically one of the "law of unintended results." I certainly would laud the committee for trying to help veterans who are having problems with their loans and to help the program, but I think in general that many of these things would work to the detriment of veterans when they come to actual practice.

Miss KAPTUR. You state that it is unrealistic to require you to sell your loan portfolio at par, in your testimony. Is it realistic to be at the whim of OMB just because one budget year needs cosmetic attention? Isn't that what OMB would have you do by selling \$900 million of your portfolio without recourse?

Mr. HORTON. Well, I think the issue of nonrecourse sales and the sale at par are separate issues. I think that not to be able to sell our loans at market would be contrary to the best interest of the Government without regard to the issue of recourse or nonrecourse.

Basically, whether the asset is sold at market value has to do with the underlying interest rate of the loans that we are selling, so the only time that we're going to sell these assets at over par is when we have a portfolio containing loans at high interest rates, as we have had in the recent past, and the interest rates are currently lower. I think in reality the market is calling those shots, and we would not be able to dispose of loans with that kind of provision if interest rates start to go up again.

Miss KAPTUR. Isn't it true that you recently received an offer as low as fifteen cents on the dollar in trying to implement this policy that you've just described?

Mr. HORTON. The nonrecourse loan proposal, that is correct. Those loans were made offered for sale recourse; in other words,

they could not be returned to the Government when they went into default. Whatever the interest rates on those loans were, and the market for those loans, were not the determining factors in the bids, but rather the nonrecourse aspect of them. There is no market out there, or there did not appear to be a market out there, for nonrecourse loans at whatever interest rate.

Miss KAPTUR. I wanted to move on to the 30 percent guarantee issue. I want to understand your thinking better on how a veteran might get hurt with the 30 percent guarantee proposal.

The veteran doesn't pay the guarantee; the only way he or she can get hurt is if he or she defaults on the loan. And should the veteran at the lower end of the income scale be subject to indebtedness at the same amount as the more affluent veteran, which is the way the present system functions?

Mr. HORTON. I guess I wouldn't phrase the issue in terms of the debt the veteran would have, but rather in the willingness of lenders to make loans.

Our experience has been that in the lower priced houses, lenders are reluctant to make loans without the full guarantee that we provide. In the example that I quoted in my remarks, we think that it would increase no bids. If you had a 30 percent guarantee on the lower end of our business, it would follow that we would have more "no bids" and we would be paying off the guarantee. And for that reason, we feel that lenders would be reluctant to make these loans.

Miss KAPTUR. Mr. Horton, do you know what percent of loans that are originated by certain financial institutions are ultimately purchased—VA loans, I'm talking about—by the secondary market, either Ginnie Mae—

Mr. HORTON. Madam Chairwoman, I don't have any exact figures.

Miss KAPTUR. Would you guess? Is it over 80 percent?

Mr. HORTON. The overwhelming majority of VA loans —

Miss KAPTUR. Is it over 80 percent?

Mr. HORTON. My guess is that yes, it would be over 80 percent.

Miss KAPTUR. It's probably over 90 percent.

Mr. HORTON. I would say so.

Miss KAPTUR. I think one of the things I would like to state for the record is that one of the most saleable items about a VA loan, if one is a financial institution, is that in fact it can be sold off to the secondary market. Under the way that the Government purchases those loans right now—the secondary market purchases those loans—we only have to guarantee 25 percent, and our bill proposes 30 percent. So we're even over what the secondary market would require. I don't quite understand why that would not be sufficient incentive. I would certainly be interested in hearing it from you or other witnesses that will appear this afternoon.

Mr. PEDIGO. Madam Chairwoman, if I might comment on that issue.

Our position in saying that it would hurt the veteran at the lower end of the economic scale is that—if you take an example of a \$50,000 VA loan, with the present VA guarantee the lender gets \$27,500; that's the full amount of the VA guarantee. Under your proposal they would get a \$15,000 guarantee.

Now, lenders are only willing to make loans at the lower amounts in today's market because they get more coverage than the 25 percent. Statistics show that loans at the lower end of the scale are riskier investments for lenders. A much larger percentage of these loans end up in foreclosure than loans at the upper end of the scale. So lenders are willing under the present setup to make loans to veterans who would want to buy a home in the \$20,000 to \$50,000 range because they are getting additional coverage on those loans.

Miss KAPTUR. How different is the default rate for loans that would total under \$50,000 as opposed to those over \$100,000? You say lenders only make the lower loans because of the high level of the guarantee. If you look at the default rate, the numbers don't show that those are riskier loans.

Mr. PEDIGO. Well, we have some statistics at the VA that show that between 1980 and 1985, 48 percent of the loans that we guaranteed during that period were for under \$55,000. And of the foreclosures that occurred during that period, 63 percent of them were on loans in that category. So our figures do seem to indicate that loans at the lower end of the scale are much riskier than other loan amounts.

Miss KAPTUR. You indicate that the Government's liability on a \$200,000 home would be \$60,000. And, Mr. Horton, I want to direct this question to you. Which situation would be most likely to result in a loss to the Government: four \$50,000 homes guaranteed at \$27,500 each, or one \$200,000 home guaranteed at \$60,000?

Mr. HORTON. I guess the assumed answer to that is the four at \$50,000, but I don't have any empirical evidence to answer that one way or the other.

Mr. KANE. Only if they all went bad.

Mr. HORTON. Pardon?

Mr. KANE. Only if they all went bad.

Mr. HORTON. That's correct; that would only be if all four of them were to go bad, would you have the same results.

Miss KAPTUR. Thank you.

I notice that the VA strongly opposes our recommendation for guaranteed loans in American Samoa. Do you have any counter proposal that you would like to present which would assure that at least some of the veterans on American Samoa could be afforded the opportunity for home ownership?

Mr. HORTON. Well, we think if the Government of American Samoa could provide some sort of a loan program for veterans, that we would be able to guarantee those. We do have at least one instance in the State of Wisconsin, where the State provides a program for veterans, and the VA is guaranteeing those loans. And it would seem that that sort of a program would be desirable and preferable to direct loans.

Miss KAPTUR. All right.

I believe Mr. Davis—I'll call on you in the order that you came in. Do you have any questions, Mr. Davis?

Mr. DAVIS. Thank you, Madam Chairwoman.

I came in a little bit late, and I listened to what Mr. Horton had to say. I am impressed with some of his arguments, but I would just like to ask a couple of questions.

Mr. Horton, do you think all lenders would quit if we reduced the percentage, the 30 percent?

Mr. HORTON. All lenders?

Mr. DAVIS. Yes.

Mr. HORTON. Certainly not.

Mr. DAVIS. Would you have the pool go way down? Would it restrict access to the market by veterans dramatically?

Mr. HORTON. I believe it would.

Mr. DAVIS. Can you guess as to how that restriction would affect the average veteran? Would it be one out of two, or three out of four, or maybe one out of ten that would be affected that could probably not get a loan?

Mr. HORTON. Well, I suspect that would be a guess. And if we're going to guess, maybe Keith Pedigo would be a better guesser than I am.

Mr. PEDIGO. Well, I'm not a good guesser—

Mr. DAVIS. Okay. I won't pin you down. But in your judgment, both of you, it would have a significant effect in the marketplace—

Mr. HORTON. Yes, sir.

Mr. DAVIS.—probably on the ones that need it the most, the lower end. Is that correct?

Mr. PEDIGO. Yes, sir.

Mr. DAVIS. So I'm inclined to agree with that argument. I can't understand how lowering the guarantee would help more veterans get access to the lenders, who will have to have that to enter the lower end of the marketplace. I think I'm in agreement with that particular idea.

This idea of getting at the foreclosure rate, will that affect the marketplace too, if we're trying to reduce the foreclosure rate by reducing guarantees? How is that going to affect the general market?

Mr. HORTON. I'm sorry, I don't understand the question.

Mr. DAVIS. Well, all right. I'll drop that one; it's something that I'm a little confused on myself.

VA doesn't want to talk about alternatives to foreclosures on veterans in default at all, do you? You really would prefer to just leave the system the way it is?

Mr. HORTON. Well, I think the situation is, Mr. Davis, that we try to make every accommodation that we can to a veteran who is having problems paying his loan. And the two alternatives that we're primarily talking about are deed-in-lieu, and refunding. We have those alternatives at this time. They're not a vested right to the veteran, however. If we take a deed-in-lieu, we relieve the veteran of his debt. We have some ground rules we follow, the biggest one being that he can't pay the debt back, or we don't think that he could, after we take a deed-in-lieu. But we think there are other circumstances where we shouldn't relieve a veteran of his debt, and therefore deed-in-lieu would not be appropriate.

The same with refunding. We refund a veteran's loan at a time when he's behind and we think he's creditworthy and we believe sometime in the near future he will be able to resume his mortgage payment. We don't think it makes sense to do it when these conditions are not met. To give a veteran a vested interest in something

that he does not have as a matter of right, I think would be a mistake.

Mr. DAVIS. It looks as if Congress will not increase the funding fee requested by the Administration of 1 percent. VA has said in the past that an appropriation of some \$300 million to \$400 million will be needed to supplement the Loan Guaranty Revolving Fund, and one of the proposals in the bill before us is that the VA sell vendee accounts at only par or above. If this were adopted and you really couldn't get par or above for your vendee sales, how much more money do you think would be required to be appropriated over that \$400 million? If you couldn't sell—

Mr. HORTON. In effect, if we had no sales in 1988?

Mr. DAVIS. That's right, and I know what your problem has been with the sales without recourse.

Mr. PEDIGO. A substantial portion of the funding for the revolving fund for next fiscal year, as well as subsequent years, would come from the sale of vendee loans. So if we were not able to sell these loans, we would be required to come to Congress for a very substantial appropriation.

Mr. DAVIS. Do you want to guess at that one?

Mr. HORTON. We can supply that for the record.

Mr. DAVIS. Would you? Please do. I know we'd be very curious as to what that amount would be. But it would be substantially above the \$400 million you're talking about?

Mr. PEDIGO. Yes.

[Subsequently, the Veterans Administration furnished the following information:]

If proceeds from the sale of vendee loans during FY 1988 were not deposited into the Loan Guaranty Revolving Fund, an appropriation of approximately \$1 billion would be needed to fund program operations. This consists of the current appropriation request of \$389.8 million, plus \$744.4 million in projected loan sale proceeds for FY 1988, less estimated collections from the repayment of these loans.

Mr. DAVIS. Thank you, Madam Chairwoman.

Miss KAPTUR. Thank you, Mr. Davis.

Mr. SMITH. Thank you, Madam Chairwoman. I'm sorry to be a little late this morning—

Miss KAPTUR. That's alright.

Mr. SMITH [Continuing].—or this afternoon. That's why I'm late all the time.

[Laughter.]

Mr. SMITH. I obviously didn't hear all of your testimony, but I do have a couple of questions to follow up on what Mr. Davis just referred to.

On this 1 percent, you favor raising this to 2.5 percent on the fee for VA loans. Run through me one more time your explanation for that and tell me how that helps the veteran, if you could do that.

Mr. HORTON. Well, the 2.5 percent funding fee is the amount of money that we think it will take to keep the revolving fund viable without the need for an appropriation. That funding fee amounts to about a \$10 a month increase in the mortgage payment on the average loan that we guarantee. The rationale for it is that it would keep the Loan Guaranty Revolving Fund solvent, without the need for appropriations. We don't believe that a 1 percent funding fee will.

Mr. SMITH. These origination fees, as you well know, in the marketplace, the buyer or the seller of them—one or the other of them is going to pay the fee, one way or the other. Either the seller is going to pay for them indirectly, or the veteran is going to pay for them with a higher cost to him for the property. Sometimes, unfortunately for the veteran, it happens in both cases, that the residence is sold to him, perhaps, at a higher cost than it otherwise might cost him, and he still pays the fee.

It just seems to me that—go ahead and respond.

Mr. HORTON. Well, in this case the funding fee will be paid by the veteran. There's a good deal of debate about who is actually paying financing points.

Mr. SMITH. There sure is.

Mr. HORTON. But this fee would be paid by the veteran; there's no question about that. This fee can be financed, so it would become part of the veteran's loan and would be included in his monthly payment. It doesn't necessarily have to be financed, but it may be.

Mr. SMITH. Is this done the way it's done in the commercial market, where for example if it's a 9 percent interest rate, then it becomes 9.3 percent or 9.4 percent and is factored into the loan?

Mr. HORTON. No, sir. I think really you're speaking of points there, which is really an adjustment in the yield to a lender when the established interest rate is below the yield required by the secondary market.

The funding fee is strictly a fee that is paid by the veteran for purposes of getting a VA loan, and it's paid to the Government, not to the financial institution.

Mr. SMITH. It's an origination fee. But if he doesn't have the money and he still needs to buy the house, what is he supposed to do if he doesn't have the origination fee?

Mr. HORTON. Well, that's what I'm saying—

Mr. SMITH. Isn't it amortized—

Mr. HORTON. Points are a little different than an origination fee.

Mr. SMITH. But isn't it amortized across the life of the loan? That's what I'm asking you.

Mr. HORTON. No, sir. Points are paid up front and the origination fee is usually paid up front as well.

Mr. SMITH. Paid up front?

Mr. HORTON. Yes, sir.

Mr. SMITH. Always?

Mr. HORTON. Well, no.

Mr. SMITH. You're saying it's never amortized across—

Mr. HORTON. Well, he can include the funding fee in his payment, in which case it would be amortized across the amount of the loan, you're correct.

Mr. SMITH. Because it is true that in many cases with veterans they don't have the 1 percent, let alone the 2.5 percent. Isn't that true in some cases? In many cases?

Mr. HORTON. I'm sure that's true.

Mr. SMITH. So again, it can be amortized across the life of the loan?

Mr. HORTON. Yes, sir. In effect, a veteran can get a loan that's in excess of 100 percent of the value of the property, which is one of the problems that affects the back end of our business.

Mr. SMITH. Well, that's one of the problems with the origination fee, as far as I'm concerned. If you've got a property worth \$100,000 and you're going to give the veteran 100 percent financing, or \$100,000, what you're doing is you're not really doing him a favor by giving him a loan on a property worth \$100,000 for \$102,500, which is really what you're doing.

Mr. HORTON. Correct.

Mr. SMITH. And you know, that's not good business for the veteran, and it really isn't good business for the Government either, since we're going to be responsible for the loan if he defaults.

Mr. HORTON. You are correct.

Mr. SMITH. It would seem to me that if you are going to have to deal with these fees, that they ought to be somehow realistically looked at in terms of what the value of the property is, especially in the 100 percent—all VA loans are not 100 percent financed, are they?

Mr. HORTON. No, sir.

Mr. SMITH. So it ought to be looked at in that regard.

Did you have a response?

Mr. PEDIGO. No, I have no response.

Mr. SMITH. I have no further questions at this time, Madam Chairwoman.

Miss KAPTUR. Following on your question, I wanted to ask Mr. Horton—before OMB forced sales during the 1960's, how much did the VA need to add to the revolving fund?

Mr. HORTON. We probably will have to supply that for the record, but it's relatively small compared with what we have here.

Mr. PEDIGO. I'm not sure what you mean by forced sales, Madam Chairwoman.

Miss KAPTUR. Well, take a guess.

[Laughter.]

Mr. PEDIGO. I said previously I'm not a good guesser.

[Laughter.]

Mr. HORTON. You're speaking of before we started selling our assets when the Loan Guaranty Program was financed out of the Direct Loan Program?

Miss KAPTUR. Yes.

Mr. HORTON. And I think we'll have to supply that for the record unless you know that off the top of your head.

Mr. PEDIGO. I don't know the answer.

Miss KAPTUR. All right. We'll be very interested in those numbers, if you could provide them.

[Subsequently, the Veterans Administration furnished the following information:]

The Loan Guaranty Revolving Fund was established in 1962 as a mechanism to fund the operation of the home loan program. Over the years, transfers from the Direct Loan Revolving Fund into the Loan Guaranty Revolving Fund have been necessary when collections were not sufficient to offset program costs. From 1962 through 1967, \$634 million was transferred. For the next 10 years (1968 through 1977) no transfers were needed. From 1978 through 1984, approximately \$1.4 billion was transferred. An additional \$100 million has been transferred this year, for a total of \$2.1 billion in transfers since the Loan Guaranty Revolving Fund was estab-

lished. These transfers occurred with the approval of the Office of Management and Budget and were authorized through appropriations acts.

VA has sold vendee accounts at various times over the years to provide additional funding for the program and to reduce Agency outlays.

Miss KAPTUR. I also wanted to ask, Mr. Pedigo, you made a statement on the riskiness of loans valued at less than \$50,000. You said 55 percent of the loans that the VA makes are under that amount, and yet the default rate is 63 percent; I don't recall the exact percentages, but it was in that ballpark, is that correct?

Mr. PEDIGO. Yes.

Miss KAPTUR. With the 30 percent requirement that this legislation proposes, do you not think that there will be better underwriting guidelines that will diminish the number of veterans at risk? Are you suggesting we make loans so that veterans can default? Shouldn't we rather tighten up the underwriting criteria so that we do make some loans and that veterans don't lose their shirts in the marketplace?

Mr. PEDIGO. Well, no. In fact, in October of 1986 we did tighten those credit underwriting guidelines. We think they are sufficiently tight at the present time.

All I was suggesting was that if an investor, a lender out in the private sector, has a choice between making a loan in the inner city of Chicago for \$40,000 or making a loan in one of the affluent western suburbs of that city for \$110,000, given the 30 percent guarantee, he is probably going to opt to make the loan out in the suburbs because the 30 percent guarantee on the inner city loan is not going to cover his perceived risk. So what we're saying is we believe that there will be a substantial number of veterans in this country, particularly in the inner city and some of the low-income rural areas, who will be precluded from using their VA benefits.

Miss KAPTUR. Even when those loans will be bought by the secondary market?

Mr. PEDIGO. The secondary market, in effect, determines which loans a lender will make. They set the guidelines.

Miss KAPTUR. Mr. Horton, I had one final question. You oppose the section of the bill authorizing the VA to include in vendee loans additional funds to be used to rehabilitate properties purchased from the VA because it would deplete the revolving fund. Yet in the June 14th edition of the Houston Post the VA not only advertised a "super saver auction," but you gave away two free homes.

Wouldn't it be better on these distressed properties to maximize your returns by providing for their improvement and ultimate resale?

Mr. HORTON. Madam Chairwoman, the VA did not give away homes in Houston. We should clarify that for the record. Those homes were purchased from the VA by the auctioneer at market price as an inducement in running the auction. I just wanted to state that for the record.

Our opposition to the rehabilitation program is that it would be very difficult for us to administer, and we would have no way of knowing that we would get a dollar-for-dollar return on our investment.

Secondly, it would provide a benefit to non-veterans who often buy our acquired properties that's really not available to the veterans.

Miss KAPTUR. Mr. Horton, do you know what price was paid to the VA for the two homes that are going to be given away at public auction, according to these ads?

Mr. PEDIGO. Madam Chairwoman, I can't give you the exact price. But when the auctioneer approached us with this proposal, they were talking about the purchase of two properties, each of which would be in the \$10,000 range. So I would assume that the properties that they did eventually purchase were in the area of \$10,000.

Miss KAPTUR. And what do you think the original value of those homes might have been?

Mr. PEDIGO. We have no way of knowing at this point but we'd be happy to provide that.

Miss KAPTUR. Would you provide that for the record?

[Subsequently, the Veterans Administration furnished the following information:]

The two properties purchased by the auctioneer totaled \$19,500. Specifically:

* Property 1—purchased at \$8,400. This property was reacquired by the Houston office on June 3, 1986, and was last listed for \$11,000. The property previously sold in January 1985, for \$24,000 with vendee financing. Prior to the termination of the vendee loan in June 1986, the value of this property was established at \$14,849 by the liquidation appraiser.

* Property 2—purchased at \$11,100. This property was acquired on April 15, 1986, for \$21,370 and was last listed for \$14,500.

Any cash offer is acceptable if it is as much as 10% below the list price on terms (vendee financing). In addition, the Houston office has a long-time deviation to accept offers as much as 15% below the latest list price (cash or terms) on all of its properties. These same prices were available to anyone who paid cash for the properties. In fact, the proceeds that VA received from the auctioneer were actually higher than VA would have received from someone else because the currently authorized 6% sales commission was not paid in connection with the sale of these properties to the auctioneer.

Miss KAPTUR. Just for your information—perhaps the VA is getting bad information, but the ads state in very bold print, "VA/Veterans' Administration Auction Back By Popular Demand. VA Super Saver Home Auction." Then it says, "250 homes, no minimum opening bid, \$2,000 cash, brokers welcome. You do not need to be a veteran"—I'm not sure this gives the VA a very good reputation out there.

Mr. HORTON. Madam Chairwoman, we view our auction sales as a minor supplement to our normal marketing process. We only do those because of the type of market that we have to dispose of properties. We don't want to be in the direct loan business and we want to try to sell our properties, and it's for this reason that we don't want to get into the rehabilitation business in a big way.

Miss KAPTUR. Thank you, gentlemen, very much.

I notice that Mrs. Patterson has joined us. Did you have any questions at this point?

Mrs. PATTERSON. No, Madam Chairwoman.

Miss KAPTUR. Not at this time.

Yes, Mr. Smith? Follow-up? Certainly.

Mr. SMITH. Mr. Horton, in a situation where a veteran transfers and either rents or perhaps has someone assume the mortgage pay-

ments of his property, it's my understanding that under current law he cannot refinance that loan—as a serviceman, he cannot refinance that loan. Is that true?

Mr. PEDIGO. That is correct, if he is not occupying the property. If he is not currently occupying the property, he is not in a refinancing position.

Mr. SMITH. Well, in a scenario where a serviceman is transferred, he obviously cannot buy the property. And it's not always convenient to sell quickly; he may not want to sell quickly. Perhaps he may wish to come back to that area. He may have 2 or 3 years left on his tour and would like to come back and retire, perhaps, in the area, or keep the home that he has. This essentially precludes him from doing it. I mean, if he can refinance that loan at a lesser interest rate and save the house, it could also save the taxpayers money if it could preclude a default. Why not—

Mr. HORTON. We're in favor of that, Mr. Smith.

Mr. SMITH. You're in complete agreement with that? I understand this bill deals with that in its entirety, and it's my understanding you were not totally in agreement.

Mr. PEDIGO. We are in favor of that provision. We do favor affording active duty service persons in that situation the opportunity to refinance a property when their tour of duty takes them away from the location that their home is in.

Mr. SMITH. You have no reservations at all?

Mr. PEDIGO. Not with that particular provision, none, as it addresses service members.

Mr. SMITH. Okay. Well, I had information contrary to that, but I'm glad to hear that you have no reservations. Thank you.

Thank you, Madam Chairwoman.

Miss KAPTUR. Thank you, Mr. Smith.

I will be submitting questions for reply, if you would be so kind. And I know that Mr. Burton was unavoidably detained and would like also to submit his official statement for the record, along with some questions.

[See written committee questions and their response on p. 141.]

Miss KAPTUR. I would like to thank all three of you. Mr. Kane, you were extremely quiet; we hope that you will feel comfortable in answering some of the questions that we will send along to the VA, and we certainly appreciate your being with us this afternoon.

Mr. HORTON. Thank you, Madam Chairwoman.

Mr. SMITH. Madam Chairwoman, in looking at the testimony in reference to the responses given in answer to my questions, I'd just like to reiterate for the record the testimony. This proposal was discussed, the proposal of the question I asked, in our testimony before the subcommittee on April 22nd, 1987, and as we advised you at that time, "the VA would not object to this proposal if it was limited to a one-time use for foreign service and active duty military personnel who certify that they intend to reoccupy the property in the future. The other amendment contained," etc., "would provide that a person on active duty in the armed forces would be deemed to occupy a property for VA loan purposes if the spouse and all the dependent children of the service member actually occupied the property. We understand that this proposal is intended to aid service members whose duty situation, i.e., lengthy

sea duty or overseas assignments, etc., prevents them from occupying the family home. Although VA favors helping service members in this situation, we cannot favor this proposal as drafted."

I find an absolute contradiction, frankly, in the response, and I just want to point that out for the record.

Miss KAPTUR. Mr. Smith, we are surprised at the VA's strong opposition to many of the proposals in this bill, and would certainly be happy to have you follow up with an additional question, if you would like.

Mr. SMITH. I'd like some clarification on that as to why the response was different to my question, when I specifically asked if there were any reservations, and they said none.

Mr. KANE. May I clarify that for you, Madam Chairwoman?

Miss KAPTUR. Ah, Mr. Kane, please. Identify yourself for the record.

Mr. KANE. Mr. James Kane, Assistant General Counsel, Veterans' Administration.

We favor allowing the veteran to refinance. The only thing we were opposed to, sir, was that part of the law which said that the property must be occupied by the spouse and all dependent children. The emphasis is on "all." The veteran may have remarried and have dependent children by a prior marriage who do not live in that house. And under this bill, we would be unable to help him.

So what we would say is, "occupied by his spouse," but don't make it "all dependent children." A child may be away at college or may be with another parent. That's the only thing we oppose.

Mr. WILSON. Mr. Kane?

Mr. KANE. Yes, sir?

Mr. WILSON. Did you want the spouse to be occupying the house?

Mr. KANE. Well, we think that if you're going to put that provision in there, that would be fine. We don't want "all the children."

Mr. WILSON. Take the case of a serviceman who gets transferred, and he rents the home to someone. He doesn't know where he's going to be for the next 10 years, but he knows he's going to be away from that place. If he wants to refinance that home, and his wife is with him, under your agreement would you say that he could in fact refinance?

Mr. KANE. If he certifies he will in the future, yes, sir.

Mr. WILSON. Suppose he can't certify that he wants to go back to the place? Would you still favor it?

Mr. KANE. Well, then you have an investment property. I would have to think about that.

Mr. WILSON. Well, any situation where a possibility exists that a person could save in the long haul, could save the Government some money by refinancing and thereby perhaps prevent a default and a subsequent foreclosure. The question is, would you favor letting that kind of a person refinance. Is that your current position?

Mr. KANE. Well, as Mr. Pedigo indicated, we give a great deal of leeway in doing these. I would think that unless a veteran absolutely knew he was not going to come back to that property, he could make the certification. What we typically have is a veteran living in Norfolk; he gets transferred overseas for 2 or 3 years or whatever, he keeps the property there knowing that someday he'll

come back and retire there. And those, we have no problem with at all.

Mr. WILSON. Mr. Kane, suppose he bought the home when he was 25 years old. He's now 50; he's subsequently rented it. He has no intention of going back to it, but he has a chance to refinance it and save himself some money, save the Government some ultimate money in case of foreclosure. Are you saying that unless he can certify that he wants to come back to that place and will come back to it, that he should not be able to obtain refinancing?

Mr. KANE. That's been our position, yes, sir, because it's nothing more than an investment property. It's not his home any more if he has no intention of ever living there.

Mr. WILSON. Thank you, Mr. Kane.

Miss KAPTUR. Thank you very much.

I'd like to call the second panel, if I might: Mr. Thomas French, Jr., Chairman of the Board, BancBoston Mortgage Companies, Inc., Jacksonville Florida, representing Mortgage Bankers Association of America; Mr. David K. Hill, Member, Mortgage Finance Committee, Rolling Meadows, Illinois, National Association of Home Builders; and Mr. Norman N. Kailo, Chair, Government Mortgage Programs Subcommittee, Real Estate Finance Committee, Wayne, New Jersey, for the National Association of Realtors.

We welcome you gentlemen, and thank you very much for taking time out of your own businesses to be with the committee today as we consider this very important legislation.

I would like to reiterate that if you could summarize for the record your oral testimony in 5 minutes, we will proceed in order and then open up the whole panel up to questions. That might make the best use of the time, and we will begin in the order in which you are listed, with Mr. French.

STATEMENT OF THOMAS M. FRENCH, JR., CHAIRMAN OF THE BOARD, BANCOSTON MORTGAGE COMPANIES, INC., JACKSONVILLE, FLORIDA, REPRESENTING THE MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mr. FRENCH. Madam Chairwoman and members of the subcommittee, my name is Thomas M. French, Jr., and I am Chairman of the Board of BancBoston Mortgage Companies, Inc., of Jacksonville, Florida. I am President of the Mortgage Bankers Association of America.

MBA appreciates the opportunity to appear before you today to testify on H.R. 2672. Madam Chairwoman, we commend you on your efforts to address the problems facing the VA Home Loan Guaranty Program and your interest in assisting veterans to become and remain homeowners. At the same time, you have recognized that private sector participants play a vital role in the implementation of the Home Loan Guaranty Program. To that end, we offer our recommendations to the bill.

The cornerstone of the VA program is the guaranty amount paid to the lender in cases where the veteran defaults on the loan and foreclosure takes place. H.R. 2672 proposes to reduce the guaranty amount from the current 60 percent of the loan or \$27,500, whichever is lower, to a flat 30 percent of the amount of the loan. While

this proposal might facilitate VA loans in high-cost areas, MBA opposes this change. This change would prevent the program from serving veterans at the lower end of the income scale. These are the veterans that most need and benefit from the VA program. I can tell you from my own personal experience as a buyer that I could not have bought my first home if it were not for a VA loan program. On the other hand as a lender, I can tell you that reducing the guaranty amount increases the risk. The average VA loan in 1986 was \$70,000 on a \$73,000 home, well below the average sale price of \$100,000 per home. The proposal would reduce the guaranty on a \$70,000 home from \$27,500 to \$21,000. Even at \$27,500, the guaranty may be too low.

VA loans are acknowledged to be high-risk. As you know, the veteran is entitled to a 100 percent loan, and this is a very valuable benefit. We urge that the current guaranty be increased to \$36,000, as proposed in S. 9.

MBA would like to take this opportunity in testifying on H.R. 2672 to focus on what we consider to be the darkest cloud hanging over the Home Loan Guarantee Program, the no-bid crisis, that has wreaked havoc on lenders and veterans in areas of the country that are suffering from devastating economic conditions. Steep depreciation in home values and VA delays in administering foreclosure cases, both beyond the control of the lender, have exacerbated the situation. It is uncertain whether, under the present structure of the program, veterans in all parts of the country will be able to secure VA home loans. Changes should be made to the claim payment formula. The formula should take into consideration the extraordinary plight of homeowners and lenders in severely depressed economic areas. MBA specifically proposes to limit, on a case by case basis, losses from no-bids resulting from steep declines in property values. Where the value of the property has declined by more than 15 percent, the lender would have the option of either, one, being paid the guaranty amount and keeping the property, or, two, conveying the property to the VA and forfeiting 5 percent of the debt at the time of foreclosure. In this way, the lender would share the loss with the VA in those cases where a vast decline in the market value has occurred.

MBA further urges the change in the no-bid formula that would address the problem of no-bids caused by interest accruing during foreclosure delays that are beyond the control of the lender. MBA specifically proposes that the amount of interest included in the formula calculation be limited to 90 days, which is the customary default period prior to initiation of foreclosure. In those cases where the VA acquires the property, the lender should continue to be reimbursed for all interest accrued up until the day of the foreclosure sale.

MBA believes that these two proposals would provide desperately-needed help in those cases where the no-bid price is beyond the control of any lender and veteran homeowner. Otherwise, we think that Congress should decide whether it wants the VA Home Loan Guarantee Program to continue as an entitlement. After 37 years as a mortgage banker, I am very concerned about the future viability of the VA Home Loan Guarantee Program.

Thank you, Madam Chairwoman.

[The prepared statement of Mr. French appears on p. 64.]

Miss KAPTUR. Thank you very much, Mr. French. We will hold questions for just a few minutes.

Mr. Hill?

STATEMENT OF DAVID K. HILL, MEMBER, MORTGAGE FINANCE COMMITTEE, ROLLING MEADOWS, ILLINOIS, REPRESENTING THE NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. HILL. Thank you, Madam Chairwoman. I am very pleased to appear before this subcommittee, representing 147,000 home builders across the country.

In our prepared remarks we have addressed a number of the concerns which have been raised by previous speakers, but I would like, because of the overwhelming focus from my industry's point of view, to really address just two of the issues that are dealt with in H.R. 2672.

The first is the adjustable rate mortgage (ARM). I come before you as an active home builder. My company is based in Chicago, and during the early 1980's I was forced to learn more than I really wanted to know about mortgage financed and the revolution that was taking place as we moved from portfolio lending to mortgage securitization. Since that time I have been very active in the Mortgage Finance Committee of the National Association of Home Builders. It is with pleasure that I appear before this subcommittee in particular because my father is known in the Chicago area as having spent a great deal of his career trying to house veterans in the city of Rolling Meadows where over 50 percent of the homes benefitted in the late 1940's and early 1950's from the VA Guaranty Program.

I have a good practical background, and it is because of this that for a number of years I did not personally support, and urged the NAHB not to support, any particular adjustable rate mortgage program. In the early 1980's some really wild and detrimental formulations of adjustable rate mortgages came into being as the entire industry and home buyers sought to find new ways to finance the purchase of homes that they so badly desired.

We, now however, have a clear and tested precedent that has caused me to become an advocate of a properly constructed and limited adjustable rate mortgage. NAHB is particularly pleased that this committee is considering a pilot program for an adjustable rate mortgage for veteran buyers.

The precedent that I refer to, of course, is the FHA ARM program which, implemented in 1985, has had relatively limited utilization up until the last 18-month period. It was presented as a very conservatively-structured, closely capped mortgage tied to a national index. It was allowed to adjust upward only 1 percent each year with a 5 percent absolute maximum over the life of the mortgage.

The experience gained with this instrument, especially in the last 3 months, where we have seen the VA prevailing rate rocket from 8.5 percent to 10 percent—has, together with my experience in the early 1980's, convinced me that the ARM pilot program you are considering is a necessary alternative for the veteran home buyer. We are an international capital market today. Ginnie Maes

are actively traded on the Tokyo exchange, as well as in New York. Fannie Mae and Freddie Mac Participation Certifications and Mortgage Backed Securities are denominated in yen and sold directly into the Eurodollar market. It is an international capital market, and the last 3 months has shown how quickly theoretically-unrelated things—like our balance of payment problems and the sudden weakening of the dollar—can take all of the projections from mortgage bankers, realtors and home builders, and throw them into a cocked hat. We saw a 150 to 200 basis point move in a very limited period of time as we were whiplashed through the mortgage securitization process with this new volatility, which is an inherent part of a world capital market.

Now, the reason this background is relevant is that the adjustable rate mortgage allows the veteran who is properly situated in life and where the mortgage is conservatively underwritten and properly capped a lower-cost alternative because he assumes a modicum of the interest rate risk. The interest rates available to him over time with this type of a mortgage do produce a lower mortgage finance cost for the veteran. I, myself, have an adjustable rate mortgage and have had one for a considerable period of time. I am very hopeful that you will look at a broad based pilot program, and allow it to be demonstrated on a nationwide basis.

I see that I have overspent my time, Madam Chairwoman. Let me turn quickly to the increase in the guaranty amount. We have a proposal which I would be happy to address in greater depth which I think might solve the concerns with the bill's 30 percent formulation.

Clearly, the 30 percent formulation is an excellent one in terms of dealing with high-cost areas, which is a major part of the problem. However, it alone seems to raise a great number of concerns about low-cost areas. After looking at the VA and MBA testimony, I would propose in brief that you consider a \$36,000 loan amount or 30 percent whichever is greater to deal with the high-cost areas, but never more than a 60 percent guaranty of the mortgage amount to deal fairly with low-cost areas. It would, I think, produce what we would call a "butterfly solution." You would have both a high-cost wing, and a low-cost wing which meets the concerns of previous speakers. I would be happy to answer questions on this or any other portion of our written testimony during the question and answer period.

[The prepared statement of the National Association of Home Builders appears on p. 75.]

Miss KAPTUR. Thank you, Mr. Hill, very much.

Mr. Kailo?

STATEMENT OF NORMAN N. KAILO, CHAIR, GOVERNMENT MORTGAGE PROGRAMS SUBCOMMITTEE, REAL ESTATE FINANCE COMMITTEE, WAYNE, NEW JERSEY, REPRESENTING THE NATIONAL ASSOCIATION OF REALTORS

Mr. KAILO. Madam Chairwoman, my name is Norman Kailo. I'm a realtor from Wayne, New Jersey, and also the 1987 Chair of the Government Mortgage Programs Subcommittee of the Real Estate Finance Committee of the National Association of Realtors.

On behalf of the more than 730,000 members of our association I want to thank you and members of the subcommittee for a second opportunity to present our views on veterans' housing issues, and specifically on provisions of H.R. 2672, the Veterans Housing Rehabilitation and Program Improvement Act of 1987.

I'd like to add that I also speak as a veteran who, after returning from foreign combat service some years ago, was able to purchase my first home under the Veterans' Loan Program.

As we previously testified, we continue to question the cost-effectiveness of the Administration's proposal to sell VA vendee loans on a nonrecourse basis. If VA is required to continue to sell its loans, we believe that the overall solvency of the Loan Guaranty Revolving Fund would be better served if sales of assets were conducted on a recourse basis.

As you know, the National Association of Realtors continues to oppose increasing the 1 percent VA loan origination fee. We support the provision in Section 3 which would ensure continued maintenance of the 1 percent fee for 2 years.

Madam Chairwoman, we have reviewed the proposal in H.R. 2672 which would provide for a uniform guaranty limit of 30 percent of the loan amount. We believe that the current mechanism has operated effectively, and we would prefer the approach which is included in the pending Senate legislation, S. 9, which would increase the loan guaranty maximum to \$36,000.

While we believe that the proposed uniform guaranty would benefit VA borrowers in so-called high-cost areas, such as mine, we are concerned that veterans in the lower market areas—those for whom the loan program was primarily intended—will be disadvantaged. Further, by effectively reducing the loan guarantee for veterans in these regions, lenders may be less willing to provide such loans.

We continue to support efforts to improve the availability of financial counseling for delinquent veterans, but we are concerned that this worthy goal cannot be accomplished in the current environment of inadequate VA staff and resources.

Madam Chairwoman, as we previously testified, our national association supports legislation which would permit active duty military personnel who have been transferred to refinance their homes through VA. We also favor the bill's extension of this treatment for loan origination purposes.

With regard to VA assumptions, the National Association of Realtors continues to oppose proposals which would require new underwriting on VA loans which are assumed when a veteran sells his or her home. As a result of this change, we believe that prospective veteran sellers may find it more difficult to sell their homes because potential buyers may be unwilling to undergo an expensive, burdensome and time-consuming underwriting procedure. This is particularly so if potential assumptors are required to pay an additional one-half of one percent origination fee along with the other fees which lenders may charge for processing an assumption. We also oppose the imposition of this additional fee.

Madam Chairwoman, as we've previously testified, our association strongly supports the establishment of an appraisal system whereby appraisal reports completed by a VA-designated fee ap-

praiser, would be received and reviewed by approved automatic lenders without VA staff involvement. This proposed change is similar to the appraisal process which is part of HUD's and FHA's growing, successful, money-saving direct endorsement program, and we support its implementation because we believe that this change will provide more timely service to the home-buying veterans and will allow VA Field Offices to operate more effectively under their current staffing constraints. In fact, this would probably free up staff to engage in other activities involved in preventing foreclosure losses, such as counseling and other proposals in this legislation.

With regard to the bill's proposed additional qualifications for VA fee appraisers, we continue to be extremely concerned with the problems generated by the use of unqualified appraisers. We have been actively working toward the development of a procedure for promulgation and use of uniform appraisal standards; however, our association has recently taken a position in opposition to Federal legislation which would call for Federal certification of appraisers. We believe that the VA Administrator's existing authority is sufficient for requiring use of State-licensed or -certified appraisers who use nationally-accepted, uniform standards of practice.

Madam Chairwoman, thank you once again for the time to provide our comments and suggestions on the subcommittee's bill. We look forward to working with you and your staff as you move forward toward development of a bill which meets the needs of veteran home buyers.

I will be happy to answer any questions you might have. Thank you.

[The prepared statement of Mr. Kailo appears on p. 88.]

Miss KAPTUR. Thank you, Mr. Kailo, very much.

Those bells mean that we have 15 minutes to cast a vote, and I think it might be best if we proceeded through about 5 minutes of questioning, if that's all right with Mr. Smith; then we'll recess for a second, run over and vote, and then come back. So we're going to ask you to wait for a few minutes, if we might.

I wanted to begin with Mr. French, and this goes back to a previous question regarding the 30 percent guarantee and the question of no-bids that was dealt with in an earlier panel.

If you take take out a \$30,000 loan, you figure it gets a \$9,000 guarantee under the proposal that we are offering. Why isn't that adequate when you figure that if something happened and there was a problem with the loan, how long it would take, if the average mortgage payment were about \$400 a month, for a veteran to actually run up that \$9,000 in guarantee? I guess I'm having difficulty understanding the argument that the 30 percent proposal is not a good idea because loans would not continue to be made. It seems to me that there would be a sufficient guarantee amount, loans would continue to be made and the secondary market would continue purchases of those loans.

Do you have any comment on that?

Mr. FRENCH. Yes, Madam Chairwoman. Could I make a very concise, general statement before I answer?

Miss KAPTUR. Please.

Mr. FRENCH. The Mortgage Bankers Association make the loans. We make probably 95 percent of them. Since 1981 the VA program, it seems to us, has been particularly under attack through negative regulations and changes from the Administration. And its viability is of great concern to us. As I said in my principal testimony, it has been of great personal value to me, and our company probably made a million dollars' worth of VA loans last year. But we have seen budget cuts, VA staff cuts; we've had no increase in the entitlement, even though house prices have gone up and the basic long-term ratio that worked so well of approximately 15 percent has been a fantastic success. And the no-bid—when this was inserted and imposed upon us, and as you know, it was the lesser of two evils that was urged by the OMB—what has happened to the VA program is that its viability and attractiveness to the lender is going down, down, down. In my opinion, the VA loan guaranty program is probably on trial in your committee today, and the future of it is going to depend on what happens.

Now, why change the formula? Indeed, our reasoning and our evidence—our lenders feel that not only should you not change it and go off in another direction, not knowing whether the secondary market would take it, but in fact you should look at it and say, the program has worked. The \$27,500 hasn't been increased since 1981, so let's move it to \$36,000. Let's get an adequate budget. Let's move forward. Let's solve the no-bid, and this valuable treasure of our country, and for the veteran, will be preserved.

All of these changes are downgrading and reducing the viability of the program. If this continues, more and more lenders are going to drop out of the program and it's going to be less possible to make loans to the veterans. And this is an entitlement. If it's not an entitlement and it's a business concern, we'll help you structure it in such a way that it will work. End of speech.

The 30 percent—you know, it's going to work partially, but in my judgment it's an unnecessary change and it probably will not help the program. And I don't think that in the long term it will reduce the Government's costs. And I've overstayed my time.

Miss KAPTUR. Mr. Hill, did you want to comment on that?

Mr. HILL. Yes. In terms of the specific question you asked, as to why a \$9,000 guarantee on a \$30,000 loan wouldn't be enough, you have to consider that it takes 4 to 6 months of attempting to work with the veteran buyer. Then, in my State of Illinois, you've got another 7 to 9 months before you could hope to perfect a foreclosure and get past the redemption problem. You also have to consider damage to the home and the costs of resale. Very frequently, as a practical matter, you have costs which run in excess of 30 percent of the mortgage, which is close to 100 percent of the amount.

So that's one of the reasons why NAHB has sought a solution to this dilemma. I wish I had more time to develop the proposal on the \$36,000 minimum. A \$36,000 guarantee has a broad consensus in the Senate, at least on the majority side.

By coupling the greater of \$36,000 or 30 percent with a guarantee of 60 percent, as it goes below the \$36,000, you address the high cost areas issue without producing the guaranty benefit for veterans who have lower loan amounts.

It's also important to make the VA interchangeable with FHA in the Ginnie Mae program. Without Ginnie Maes, the VA program doesn't work. If you differentiate too broadly between the two types of securities, which are now at a balance point, you could disrupt that balance significantly.

Miss KAPTUR. Thank you, Mr. Hill.

Mr. Kailo, I'm going to ask you to withhold for just a second. I'm going to recess the committee for about 10 minutes, until approximately 2:30, and if you gentlemen—if any of you could stay, we would greatly appreciate it.

[Recess.]

Miss KAPTUR. The subcommittee will resume, and we'll take comments from any of the previous witnesses. I think Mr. Kailo may have wanted to make a statement on the 30 percent guarantee issue. Am I correct?

Mr. KAILO. Right, Madam Chairwoman, thank you.

I guess our position could be summarized with the statement, "If it ain't broke, don't fix it." We feel it's important to bring the loan amount more in line with today's marketplace. I guess that supports, essentially, the introductory remarks that Mr. French made.

Miss KAPTUR. Could I ask any of you gentlemen, what is the magic about \$27,500 or \$36,000 as a guarantee amount?

Mr. FRENCH. I don't think there's any magic to them, Madam Chairwoman. Actually, what we would have suggested is that the guarantee amount simply proceed to progress as it historically had and historically succeeded so that \$36,000 is what we calculate is roughly appropriate, historically, as necessary to keep the program going and viable.

Miss KAPTUR. Mr. French, you talked about the number of loans that are made by the mortgage bankers and the absolutely essential role that mortgage bankers do play in this program. And I know from those that have worked in my district how very hard many of them have tried to work with families to make sure that loans are provided and the underwriting is done, and so forth.

When you heard the default figures of the gentleman from the VA on the number of loans that are valued at under \$50,000, and then looking at the default rate—63 percent, I think he said, of the defaults were for loans that were under \$50,000, so the default rate was greater than the percentage of loans made in that loan category—to what do you attribute that higher rate of default? And what do you think that this committee should do in order to tighten it up, to reduce the number of defaults in that under-\$50,000 category?

Mr. FRENCH. Well, from the standpoint of how to reduce defaults, better and better underwriting is the answer, and it's happening. In the past we had situations sometimes in which we found ourselves—and I don't mean to cast aspersions—but our underwriting was overruled by the VA where they thought that a veteran, on an entitlement basis, should have the loan rather than on a strict underwriting basis.

I do agree with them that by and large, the lower dollar denominations tend to have the higher default ratio simply because they are frequently in areas of the city where property values are not as stable and employment is not as stable. But this is not to say that

those veterans shouldn't have that opportunity to buy that home; we strongly believe that they should. We think the program should definitely provide an opportunity for low income-family veterans to buy a home. But if you change it around and tinker with it so that the secondary market either puts a pall on it, discounts it, or won't make it, so that we can't make it and sell it to them, then you have diminished their opportunity to get that loan. Somebody has to furnish the actual dollars to fund these loans.

Miss KAPTUR. Do any of the other gentlemen wish to comments? Mr. Hill?

Mr. HILL. Yes. In terms of the magic of the number \$27,500 or \$36,000. Please look at attachment B to our written testimony. You will see that 10 years ago, the guarantee amount was at \$17,500 on the average loan amount of \$31,000 which amounts to a coverage of 55 percent.

You will see that from 1976 up until 1981, when a sudden burst of inflation overwhelmed the adjustment process, the loan guarantee was basically 50 to 60 percent of the average VA mortgage. That has deteriorated until, in 1986, we are looking at only a 39 percent guarantee amount on the average \$70,000 loan.

The \$36,000 proposed in the Senate and strongly supported by NAHB and MBA would equal 51 percent of the average mortgage in 1986. In today's world it would probably be slightly below 50 percent. So it would be playing catch-up, but by no means would it be historically unprecedented.

Miss KAPTUR. How do any of you gentlemen feel about capping the total loan value at the high end?

Mr. FRENCH. Well, we've always regarded the VA loan program as an entitlement. The opportunity came because of Government service. Some of us are given opportunities to have better income and so forth than others, and the question you have to ask yourself is, do we want to view this as an entitlement? Or do we want to view it on an economic basis in which we gradually reduce the risk on this loan? Now, if that's the objective, a great deal can be done simply by changing the underwriting rules. But in my judgment, it's hardly fair to disqualify a veteran who is going to buy a larger house or has a larger down payment.

I would point out to you, Madam Chairwoman, that the average VA loan to value ratio is about 96 percent, and about 75 percent of them are no down payment or 100 percent loans.

I don't know if I've answered the question.

Miss KAPTUR. Yes, you have.

I'm not sure I favor putting restrictions on, but I was interested in the VA's reference in their testimony to "jumbo no down payment" mortgages. I assume that most jumbo mortgages have a down payment?

Mr. FRENCH. About 25 percent.

Mr. HILL. Actually, that's mumbo-jumbo to a certain extent, but there is a very practical cap here that perhaps you are aware of, and that is the \$135,000 practical limit for inclusion in Government National Mortgage Association insured mortgages.

Miss KAPTUR. Put a ceiling?

Mr. HILL.—VA's that are significantly over that have a different security pattern and are relatively infrequently encountered.

Mr. FRENCH. I believe the cap is 110 percent.

Miss KAPTUR. Are most of your mortgages sold to Ginnie Mae?

Mr. FRENCH. I would say that of the VA loans, we sell 98 percent or 100 percent of our loans in Ginnie Mae-backed mortgage securities. One of the reasons we're so concerned about you changing the basis is that what's going to happen is that Solomon Brothers and the others are simply going to give us a list saying, okay, they've changed the VA guarantee; we don't know how this is going to work, so from now on, don't put any VA loans in the Ginnie Maes. Or secondly, only put them where the amount of guarantee comes out the same as it was, at \$27,500 or greater. We hate to see you change it just for the sake of change.

Miss KAPTUR. We should definitely get comment from the securities industry and see what they think about all this. They have not appeared, and I think that would be a real interesting—

Mr. KAILO. I guess the term "jumbo," Madam Chairwoman, could be relative. I was a recipient of a jumbo loan when I got a \$15,000 home some years ago, with nothing down.

[Laughter.]

Miss KAPTUR. I know in southern California, \$100,000 is a blink of an eye, but it's a lot of money in Toledo, Ohio.

Mr. KAILO. As regards the "magic" connotation before, I guess perhaps it is a magic number, the one that we're utilizing now, because it has worked, and very few things work as well as that has worked, so maybe it has been magic. But we still have to bring it in line with today's marketplace. Perhaps it continues some of that magic.

Miss KAPTUR. I wanted to ask Mr. French, what about the fairness to the veteran—this is sort of a philosophical question—to provide exactly the same guarantee amount, \$27,500, despite vast differences in the value of property that may be owned? One veteran owning a home valued at \$50,000, another one valued at \$110,000. What about fairness there, fairness to the veteran in the amount of the benefit?

Mr. FRENCH. In a sense, it would appear on the face of it that that was unfair. On the other hand, what the effect of it has been over time, is because in the lower valued properties, the guarantee tends to be higher. What's happened is that the loan has been uniformly available, even in areas of the city where values are not as stable as they are in higher-priced suburbs. And as you know, we're not talking about high-priced property. Indeed, in New England where we operate, we haven't originated a single VA loan because the limits are not high enough.

So I think the effect of the way the guarantee has been applied in the past has just worked, and it's worked for all concerned. I've never had anyone say to me, "I don't think that someone who buys a \$100,000 ought to have the full guarantee." Most veterans look at it as an entitlement. That's the way it is, that's the way it works, and they're grateful.

Miss KAPTUR. I wanted to ask Mrs. Patterson if perhaps she had any questions. I won't use up all the time here myself.

Mrs. PATTERSON. Thank you, Madam Chairwoman.

I'm trying to get some things in perspective. We had a hearing in my district just recently on these matters, thanks to our outstand-

ing chairwoman, and one of the things that either our realtors or our home builders brought up, that I was want to see how you feel about, we keep talking about not raising the 1 percent loan origination fee. But one of the gentlemen at home suggested, when you went into a loan assumption, why you couldn't at that point charge a fee to the person making the loan assumption, maybe 1 percent there? What would be your feeling along those lines?

Mr. FRENCH. Mrs. Patterson, I think our response would be it's acceptable to us for a fee to be charged. One of the things that we have to struggle with, though, is that frequently when some action like this is taken, there would simultaneously be a determination that the mortgage banker can't charge anything for these services. If there's going to be a fee, there probably ought to be a reevaluation of the loan, and we should be given the opportunity to charge a reasonable fee for these services.

We don't oppose the imposition of a fee, and I think the VA feels that this was probably fair. And I realize that my fellow panelists see difficulties in this; but from our standpoint, what we want is a sound loan. And on an assumption, if the borrower is not strong, we've got a problem, particularly if some sort of automatic release operates or the original veteran whom we underwrote is gone, and now we have a new one, perhaps, which we hadn't underwritten his ability. We are concerned about proposals that provide an automatic release. Frankly, the traditional provisions—maybe with increased notice—that require the veteran to prove that someone reliable has assumed the debt in lieu of him, is both practical and workable. In fact, I've never, until this past few months—nobody ever suggested that the program was unfair.

Mrs. PATTERSON. Mr. Hill?

Mr. HILL. I would like to commend along the same lines but come to an exact opposite conclusion, from the builder's point of view. I deal only in new homes and am removed from the process at the time the assumption comes forward. We have nothing to gain or lose as an industry except for the viability of the overall VA program. One of the most attractive parts of the VA mortgage in today's world, where almost all the conventional financing is not assumable and where Fannie Mae and Freddie Mac have made that a law, is the assumability of the VA mortgage. We have had a long series of discussions with FHA on this issue and in cases of fraud a reunderwriting of assumed loans.

But I think that before you would do something like charge a rather stiff fee and diminish the value of that assumable feature in the mortgage, you ought to look—and I think you will find, as we found with FHA—that there is no discernible foreclosure problem related to the assumption. By the time the loan is assumed the house has matured. Very frequently the loan has been paid down somewhat, and there does not seem to be—even during the turbulent times of the last 6 years—a link between assumption and risk. That being the case, I don't know why the assumability feature has to be so encumbered.

Mr. FRENCH. I think our testimony reflects that we primarily feel the process should be followed in the first year of the loan.

Mr. KAILO. We also have difficulty in agreeing with our friends, the mortgage bankers, on this particular issue. We come through

from the other end of the tunnel also, as the builders do, I guess, and feel that if this is an entitlement program, what we're concerned with is the ability of the program to work for the benefit of the veteran. We're not that much concerned with the purchaser at that point. If he has an ancillary benefit, it doesn't really make that much difference. But if we make it more difficult for the veteran in disposing of his property, then we are taking a benefit away.

Mrs. PATTERSON. Thank you.

Miss KAPTUR. I wonder if Mrs. Patterson might be willing to take the chair. I can go vote, run back, and that way we won't have to adjourn the hearing.

I think for you gentlemen, we will adjourn this panel. You have really been excellent, really, and we appreciate all of your associations taking a very close look at this legislation and commenting on it prior to our markup session. We will certainly take your comments with due consideration and think hard and long about them. You are really an outstanding group and we appreciate your being with us today.

Mr. FRENCH. Thank you, Madam Chairwoman.

Mr. HILL. Thank you.

Mr. KAILO. Thank you.

Miss KAPTUR. I think I would like to call the next panel of witnesses: Mr. Richard W. Johnson, Jr., Director of Legislative Affairs, Non Commissioned Officers Association; Mr. Stephen Edmiston, Deputy National Legislative Director, Disabled American Veterans; and Mr. Bob Moran, Associate Legislative Director, Paralyzed Veterans of America.

If it's all right with you, I will call panel four to join you. We will do this all together and save everyone time: Mr. Dennis Cullinan, Assistant Director, National Legislative Service, Veterans of Foreign Wars, and Mr. Paul S. Egan, Deputy Director, National Legislative Commission of the American Legion, accompanied by Mr. Emil Naschinski, Assistant Director, National Economic Commission. I will ask Mrs. Patterson to take the chair, if she would be so kind, and I will try to get back as fast as I can.

Mrs. PATTERSON [Presiding]. This is a first for me, gentlemen, so bear with me as I preside at my first subcommittee meeting.

I will just call on you as listed, if you will. Let's hear from Mr. Johnson at this time.

STATEMENT OF RICHARD W. JOHNSON, JR., DIRECTOR OF LEGISLATIVE AFFAIRS, THE NON COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA

Mr. JOHNSON. Thank you, Madam Chairwoman. It's unfortunate that Miss Kaptur had to leave because I'd like to begin our remarks today by complimenting her on this legislation and extending to her the thanks of the Association for this very comprehensive bill, one which we fully support and we are deeply grateful for her actions in introducing this legislation.

I would like to comment just briefly on three areas of the bill. One is the new underwriting of assumptions; also, on refinancing proposals; and third, on adjustable rate mortgages.

With regard to underwriting on assumptions, we urge the committee to move with caution in the enactment of these proposals. There is not enough statistical support to provide us the comfort to believe that the proposal is absolutely necessary. For example, we know that 12 percent of loans in foreclosure are assumed loans; however, we don't know how many loans which have been assumed end in foreclosure. We're not quite sure what the foreclosure rate is on assumed loans. For that reason, and because there is such a tremendous change in the legislation, we recommend limiting new underwriting on loans to those that are most likely to result in indebtedness, those generally by measure of age, generally less than 2 years old where inflation and appreciation have not provided any buffer against loss on the loan.

We also endorse the concept of reinstating entitlement, together with a release from liability, that is caused by new underwriting procedures.

With regard to refinancing, the Association is deeply grateful for these proposals. They have our strong endorsement. We believe that there should be some relaxation with regard to including all of the dependent children, as is noted in our testimony. There are frequently children who are dependent on the service member for support that may be in a resident college and not residing in the home, or may be the product of a prior marriage and residing with a former spouse.

Finally, with regard to adjustable rate mortgages, we believe that adjustable rate mortgages are an unreasonable gamble that we're asking the Veterans' Administration to share. We also believe that relatively few people who accept an adjustable rate mortgage realize the dramatic impact that an adjustable rate can have on the monthly loan payment. For example, a 1 percent increase in the annual adjustable rate can increase a monthly mortgage payment by 9 to 10 percent. Just to provide examples of that, on a \$75,000 loan at a current adjustable rate of 8.5 percent, would have a starting payment of \$576 per month. A 1 percent increase in 1 year would increase that monthly principal and interest only payment to \$630, an actual increase of 9.38 percent in the monthly mortgage payment. A 5-year cap on the loan or a 5 percent cap on the loan would provide for an increase of 49 percent in mortgage payments at the maximum adjustment rate over a 5-year period, or potentially less time if there is not a 1 percent. In any event, we are strongly opposed to adjustable rate mortgages and we hope the committee will not move in the direction of creating those for the Veterans' Administration.

That concludes my remarks, and I thank you very much for your attention.

[The prepared statement of Mr. Johnson appears on p. 94.]

Mrs. PATTERSON. Thank you very much, Mr. Johnson.

We will now hear from Mr. Edmiston.

**STATEMENT OF STEPHEN L. EDMISTON, DEPUTY NATIONAL
LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS**

Mr. EDMISTON. Thank you, Mrs. Patterson. On behalf of the more than one million members of the DAV, may I say how very much

we appreciate the invitation to appear here today to provide our views on H.R. 2672.

At the outset, the DAV wishes to commend you and the members of the subcommittee for the serious oversight and legislative efforts undertaken this year to address the various problem areas and deficiencies in the VA Home Loan Guarantee Program.

Generally, the DAV believes that H.R. 2672 greatly improves and strengthens the integrity and basic purpose of the VA Home Loan Guarantee Program. However, with respect to Section 3 of the bill regarding user's fees, we must again express our serious reservations, as we did earlier this year, of requiring the veteran to pay for the privilege of using an earned benefit entitlement. We are now, and always have been, opposed to the concept of user fees in the loan program. We are pleased to note, however, that the legislation does provide a mechanism for suspending the fee under certain specific circumstances.

The DAV is also pleased to note that the legislation continues to exempt from the user fee compensably disabled service-connected veterans and surviving spouses in receipt of DIC benefits, and has expanded such exemption to include eligible surviving spouses who are also veterans. In this regard, we would encourage the subcommittee to also favorably consider amending Section 1829(b) to include all noncompensably disabled service-connected veterans for exemption from the user fee.

Section 4 of this legislation proposes to remove the loan guarantee ceiling and establish a uniform guaranty of 30 percent for single family, condominium and manufactured homes. While this change would clearly benefit those veterans seeking to purchase a home in higher cost areas with the use of their home loan guarantee, it is unclear what benefit this change will provide to those veterans seeking to purchase homes in other than high cost areas. Our evaluation of this proposal leads us to believe that only those veterans in high cost housing areas would benefit from this change, while many others stand to lose, perhaps significantly, should this proposal be enacted. Accordingly, the DAV objects to this proposed change.

Section 9 of the legislation proposes to extend authority to enter into agreements to sell foreclosed properties for the purpose of assisting homeless veterans and their families to acquire shelter. As you know, the DAV earlier this year expressed reservations to the subcommittee relating to the use of foreclosed properties as shelters for the homeless. While the pending proposal does address some of our previously-mentioned concerns, we feel compelled to persist in expressing our reservations that utilizing foreclosed properties represents the best way for the VA to meet the needs of homeless veterans.

Finally, with respect to legislation that would extend the present 1 percent user fee to individuals who assume VA guaranteed loans, the DAV has no objection to that idea.

And with respect to amending the current home loan program to authorize adjustable rate mortgages, which has been advocated for a number of years, the DAV has some concerns in that regard, particularly with respect to who the ultimate benefit will rest with.

That concludes my statement. Thank you so very much for giving us this opportunity.

[The prepared statement of Mr. Edmiston appears on p. 101.]

Mrs. PATTERSON. Thank you very much for being with us.

We will move right along to Mr. Moran.

**STATEMENT OF BOB MORAN, ASSOCIATE LEGISLATIVE
DIRECTOR, PARALYZED VETERANS OF AMERICA**

Mr. MORAN. Thank you, Mrs. Patterson. I am Bob Moran, Associate Legislative Director of Paralyzed Veterans of America. On behalf of our members of PVA, I want to thank you for affording us the opportunity to present our views here today.

Initially, I would like to extend PVA's appreciation to the Chairwoman of the subcommittee, Miss Kaptur, and the members of the subcommittee for holding this hearing and your efforts to improve the effectiveness of the VA Home Loan Guarantee Program. PVA applauds the Chairwoman for introduction of H.R. 2672, which makes numerous changes and improvements in the VA Home Loan Guarantee Program. This legislation amends Title 38, increasing the maximum guarantee permissible for VA-guaranteed home loans by removing the loan guarantee ceiling on a VA home loan of \$27,500, and providing a uniform guarantee of 30 percent. PVA fully supports the intent and the purpose of this legislation. The last time the VA home loan guarantee amount was increased was in October, 1980, and housing costs since then have dramatically risen. Increasing the loan guarantee amount is warranted and greatly needed.

Section 3 of H.R. 2672 extends the 1 percent fee imposed on Veterans' Administration guaranteed home loans for 2 years, to 1989. PVA wholeheartedly supports this provision and is opposed to any increase of the user fee within the VA Home Loan Guarantee Program. We believe that an increase, whether it be two-fold or five-fold, would—if enacted—have a seriously detrimental effect on the ability of veterans to obtain VA-guaranteed loans and thereby discourage veteran home ownership.

I would like to briefly comment on Section 8 of H.R. 2672. The recent decline in home mortgage interest rates has resulted in lower housing costs. Military personnel who are transferred to new duty stations are not allowed to refinance their home because they do not reside in the home. PVA supports the provision contained within the bill which would change the current law to allow active duty personnel to refinance.

Again, thank you, Madam Chairwoman, and that concludes my statement.

[The prepared statement of Mr. Moran appears on p. 106.]

Mrs. PATTERSON. Thank you, Mr. Moran. I appreciate your speedily reading that for me.

If you all will allow me, it doesn't seem as if Miss Kaptur is going to get back in time for me, and I think it's important that I go over and vote, so if you gentlemen don't mind I'd like to call a recess for approximately 10 minutes. Please excuse me.

[Recess.]

Miss KAPTUR [Presiding]. The subcommittee will be back in order. Sorry to put you through this. That was an unexpected vote, as often happens around here.

I understand Mr. Cullinan is the next to testify. We welcome you back; so glad to have you.

STATEMENT OF DENNIS M. CULLINAN, ASSISTANT DIRECTOR, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES

Mr. CULLINAN. Thank you, Miss Kaptur. It's a distinct pleasure and an honor to present the views of the Veterans of Foreign Wars as they pertain to H.R. 2672, a bill introduced by yourself which is designed to greatly enhance the functioning of the VA Home Loan Guarantee Program.

The VFW firmly supports initiatives which would serve to enhance the effectiveness and efficiency of the program because, as we see it, such initiatives serve to achieve the very purpose for which the VA Home Loan Guarantee Program exists, namely, enabling veterans to achieve the American dream of home ownership. We wish to see them purchase these homes under the most favorable possible terms, and for these veterans to keep their homes.

The VFW supports H.R. 2672, the Veterans' Housing Rehabilitation and Program Improvement Act of 1987, in its entirety. We recognize that this bill, as being the culmination of many months of hard work by certain Members of Congress—first and foremostly yourself, Madam Chairwoman—and members of the House Veterans' Affairs staff and, of course, the veterans' organizations. This bill represents a bold, innovative and proactive approach toward improving the performance of the VA Home Loan Guarantee Program and in assisting veterans in purchasing and then maintaining their own homes.

For the sake of timeliness we would now briefly consider the two additional items for consideration today. The first addresses a pilot program for adjustable rate mortgages, ARMS, in one Regional Office.

The VFW opposes ARMS since they can result in a veteran being saddled with enormous debt when interest rates rise. The history of ARMS has not been a happy one. In recent years, many defaults and foreclosures are directly attributable to rapid and large elevations in interest rates, causing a once-manageable loan to be transformed into an insurmountable financial burden. The VFW does not want this tragic fate to befall our Nation's veteran homeowners.

With respect to a pilot program, the VFW can see no purpose in conducting such an enterprise. To begin, the harmful effects of ARMS may only be witnessed over a number of years as interest rates rise. Furthermore, loans issued at one regional office would most certainly not represent loans as a total cross-section of this Nation's veterans. Thus, a pilot program at a single Regional Office would have to be conducted for many, many years, and even then wouldn't deliver accurate results as to the impact of ARMS on the entire VA Home Loan Guarantee Program.

Also of concern to the VFW is the harmful effect ARMS would have on the VA Home Loan Guarantee Program itself. Increased defaults and foreclosure rates due to increased interest rates would obviously be highly detrimental to the VA. Furthermore, ARMS would be much more difficult to manage than standard, fixed-rate mortgages. The VA, for example, would be very hard-put to project its operating expenses through the years because ARMS interest rates are subject to the vacillations of the economy.

Once again, with respect to a pilot program at a single Regional Office, the effect could only be witnessed over a protracted period of time, and the VFW can see no benefit in conducting such a long-term experiment which has so little potential for delivering accurate information.

The final item of consideration is the implementation of a 1 percent user fee for individuals assuming a VA loan. Although the VFW generally objects to fees in conjunction with any veterans' benefits or entitlement programs, we do recognize the fact that a user fee for individuals assuming a VA loan would be a means of benefitting the VA Home Loan Guarantee Program by requiring non-veterans to contribute for the privilege of participating in what is a veterans' program.

As it now stands, when a veteran utilizes this benefit to make a first-time home purchase, he or she must pay a 1 percent fee. However, a non-veteran assuming a VA loan is required to pay nothing. VFW sees this as being unfair, and we contend that non-veterans benefitting from the program should at least contribute toward its continued operation.

Madam Chairwoman, that completes my statement. I'd be happy to respond to any questions.

[The prepared statement of Mr. Cullinan appears on p. 110.]

Miss KAPTUR. Thank you, Mr. Cullinan.

Finally, I would like to call on Mr. Paul Egan.

STATEMENT OF PAUL S. EGAN, DEPUTY DIRECTOR, NATIONAL LEGISLATIVE COMMISSION, THE AMERICAN LEGION; ACCOMPANIED BY: EMIL W. NASCHINSKI, ASSISTANT DIRECTOR, NATIONAL ECONOMIC COMMISSION

Mr. EGAN. Thank you, Madam Chairwoman.

Miss KAPTUR. It's good to have you back.

Mr. EGAN. First of all, I'd like to join my colleagues at the table here by expressing our sincere appreciation for the introduction of this legislation. It is very clearly a very thoughtful and comprehensive approach to solving some nettlesome problems that have plagued the home loan program for quite some time, and we certainly appreciate it.

With me is Emil Naschinski; he is the Assistant Director of our Economics Division. He will summarize our statement for us, but as our statement is the product of a collaborative effort, we are certainly both prepared to answer any questions that you might have.

Mr. NASCHINSKI. Thank you, Mr. Egan.

Madam Chairwoman, it is indeed a pleasure to be with you this afternoon and to have an opportunity to share with you the views of the American Legion on H.R. 2672. Since time is of the essence

this afternoon I will limit our observations to only a few of the sections contained in that bill.

Section 2 of H.R. 2672 would prohibit the sale of vendee loans for less than par value. The American Legion supports this provision. Unless vendee loans could be sold at 100 percent par or more, we believe the VA should be allowed to build its loan portfolio and to restore it to its former profit-generating status.

Section 4 would remove the loan guarantee ceiling and provide a uniform guarantee of 30 percent for single family homes, condominiums and manufactured housing loans. Our reservation with this particular provision is the size of the percentage of guarantee. After doing some simple arithmetic, we are of the opinion that a higher percentage is needed to protect those veterans purchasing low-and moderately-priced homes. We believe that unless the percentage is raised to, say, 40 or 45 percent, lenders will be disinclined to make loans to those veterans because their investments would not be as well protected as they are under current law.

Since lower income veterans and first-time home buyers—those who need the VA Home Loan Guarantee Program the most—are more likely to purchase less costly homes, we urge the subcommittee to investigate this further and to give serious consideration to our proposal.

Section 5 seeks to provide the servicing of delinquent loans and the furnishing of alternative procedures in foreclosure. The American Legion is pleased that the subcommittee has included this much-needed provision in this bill; however, may we recommend two changes to the current provision?

First, we believe that lines 13 and 14 should be rewritten so that they would read as follows: "...contact the veteran concerned for the purpose of providing financial counseling to the veteran, including information about..."

Secondly, we would recommend that a third clause be added which would require the VA to refer veterans whose financial difficulties stem from being unemployed, underemployed or dislocated, to the VA's Veterans' Service Division staff in the Regional Office for appropriate employment advice and job referral.

Section 8 seeks to amend various sections of Title 38 to remove the occupancy requirements in certain cases. As you know, refinancing has the potential of saving the home owner many thousands of dollars, and in some cases it may even allow that party to retain their home rather than going into default. We believe that certain veterans whose jobs require periodic transfer should be given this option. However, since the American Legion does not want to see the VA Home Loan Guarantee Program turned into an investment program, and since we do not want to see the Loan Guarantee Revolving Fund jeopardized further, may we suggest that this privilege be restricted to those veterans whose spouses continue to occupy the home.

Section 11 seeks to protect veterans from possible liability in cases of loan assumption. As a result of our experience in representing claimants involving indebtedness to the VA arising from liability for assumptions, we have discovered that the VA is handling these claimants unfairly. Routinely, the Board of Veterans' Appeals ultimately finds the indebtedness to be due to no fault of the veter-

an. This finding is accompanied by a decision to remand the case to the originating VA Regional Office for final decision. The VARO's then routinely secure a financial statement from the veteran in order to determine whether the veteran can afford to absolve the indebtedness. Once the financial statement is received, a determination to either waive the indebtedness or to collect the monies owed is made on the basis of what the veteran can afford. In other words, irrespective of BVA's findings of no fault on the part of the veteran, the veteran is essentially guilty if he can afford to pay, and not guilty if he cannot afford to pay. In our view, this is totally unacceptable.

Section 12 authorizes mortgage foreclosure relief. The American Legion supports this provision of H.R. 2672; we would, however, suggest that the VA be required to monitor the program and to report its findings and recommendations to Congress on a regular basis.

And lastly, Madam Chairwoman, you had asked for our opinion on the 1 percent user's fee being charged to those assuming VA loans. As you well know, the American Legion is strongly opposed to the user's fee in regard to veterans because we see it as a discriminatory tax on the veteran's entitlement. Further, we believe that it often prevents lower income veterans and first-time home buyers from purchasing homes. In this case, however, we are not opposed because those assuming the loans—who may or may not be veterans—are doing so because the terms are likely to be far more favorable than those prevailing at the time of the assumption.

That concludes our statement, Madam Chairwoman. Once again, thank you for allowing us this time.

[The prepared statement of the American Legion appears on p. 114.]

Miss KAPTUR. Thank you, Mr. Nachinski, very much.

I would like to begin with the point that you raised and ask Mr. Johnson—in your testimony you indicated opposition to the 1 percent user fee concept to be imposed on those loans that are assumed. Since those loans that are being assumed are generally being assumed by non-veterans, what would be wrong with charging a non-veteran to acquire a VA guaranteed loan in order to strengthen the VA Home Loan Guarantee Program itself?

Mr. JOHNSON. Our opposition is a general opposition to fees at all. We don't believe that any fees should exist in the program. Now, we did specifically state our opposition to that fee for the assumption purposes because we believe it would come out of the veteran's end. Either the value of the house would be diminished, or it would be paid out of settlement somehow. Either way, the buyer is going to be smart enough to make sure that the price of that fee is going to be included in the veteran's end of the sale. It just doesn't make sense to us to charge the veteran twice for the same privilege. Somebody has already paid for the loan. The veteran has already paid for the loan.

Miss KAPTUR. I think our intent was to charge the non-veteran.

Mr. JOHNSON. Well, I understand that, Miss Kaptur; but again, in a real market scenario, anybody who knows he's going in there and is going to have to pay that 1 percent fee is going to say, well, listen, I'll buy your house, but less whatever that fee is. One way

or the other, we just firmly believe it's going to come out of the veteran's end.

Miss KAPTUR. You know, one of the interesting things we've done in the legislation is that rather than extending the 1 percent fee for 3 years, we've made it for 2 years. I think the reason is because we're looking at other options that we might consider in the third year.

Mr. JOHNSON. For which we are most grateful.

Miss KAPTUR. We thought we had an answer, which didn't work out. So we have to go back to the drawing boards. But this committee, I know, is certainly not wedded to that 1 percent origination fee. So we welcome your testimony.

You gentlemen listened to the testimony this afternoon from the various organizations that are concerned whether loans will be available for those veterans who would be purchasing homes valued under \$50,000, and whether or not there would be more restrictive lending patterns resulting from this proposal.

Do any of you wish to comment further beyond your testimony on that particular criticism that was leveled this afternoon, and the fact that this is such a major change, that it might send shock waves into the marketplace?

Mr. JOHNSON. Yes, Madam Chairwoman, I'll take a crack at that one.

Miss KAPTUR. Everybody can answer that.

Mr. JOHNSON. Well, it goes both ways. There were two objections raised; one was the low end and the other was the high end, the jumbo end. Both are limited by—there are natural limits on both. The most natural limit is the veteran's ability to repay. Nobody is going to loan money to a veteran who doesn't have the ability to repay it. On the other hand, the mortgage banker or lender has to turn over money; that's his profit. He may not like the changes in the program, but neither is it a program which he can afford to ignore.

We do not foresee any major changes in lending practices towards veterans on smaller loans. We do believe that the veteran will indeed benefit from the decreased liability, and we do believe that the mortgage lender is going to accept a little more liability against the loan, particularly in the smaller range. But therein is where the program has its major problems. Are we inviting problems by guaranteeing larger loans? It's very doubtful, because we keep coming back to the fact that the loan is based on nothing that's in the program itself, but it is based on the individual veteran's ability to repay, as guessed at through the underwriting process by the mortgage lender.

And so there are natural caps in there, and we firmly believe that the program will continue to operate normally and we believe that the VA will benefit—and the veteran, more importantly, will benefit—from the decreased liability.

Miss KAPTUR. Mr. Edmiston, welcome back. I'm sorry I didn't hear your verbal testimony; you're such an interesting witness.

Mr. EDMISTON. Well, thank you.

Miss KAPTUR. Informed. Maybe interesting isn't the right word; informed.

[Laughter.]

Mr. EDMISTON. I would hope that what Mr. Johnson just said comes true. However, we are seriously concerned that there may be a negative impact on those veterans who are seeking to purchase homes at the lower end of the housing scale. We have no hard data to support that with, but it's the reaction that we have to the proposal. And as I said, if what Mr. Johnson just said comes true, we would be very pleased.

Miss KAPTUR. Well, it is a departure from the way we've done business in the past, but it's interesting to see how this system was first set up back in the 1950's, and that it really just sort of functioned that way for a very long time.

There appear to be enough protections built in in the secondary market, and the demand is certainly there, that it looks as though it will function, but we are certainly open to any of your thoughts here and we don't want to do anything that would hurt the veteran in the process. We want to make sure those loans are available, and we sure don't want loans made to veterans who then end up losing everything because a bad loan was made, just because the money was there. So we're hoping that this will spread the risk more evenly across the board to everyone involved.

Did anyone else want to say something on this point?

Mr. EGAN. Yes. First of all, we take very seriously what the bankers say about the predicament, that the bankers will be less and less inclined to deal with veterans at the lower end of the buying spectrum. We have to take that seriously because they are, after all, the people who are making the loans.

Miss KAPTUR. Right.

Mr. EGAN. And so we are concerned about the 30 percent possibly adversely affecting those particular veterans; in fact, that is the very reason why, in our statement, we are suggesting that that percentage be raised to perhaps 40 or 45 percent.

But the most basically appealing part of this proposal is that it would index this guarantee once and for all, so there wouldn't be 5, 6, 7 years in between times that the guarantee is upwardly adjusted. Right now, we're looking at a situation where you can't get a mortgage in excess of \$110,000 with no money down, and that kind of a limit makes the program in some parts of the country—metropolitan areas, where property is expensive—irrelevant.

And so the indexing part of it is what is very appealing, although we certainly do take seriously the mortgage bankers in this matter.

Miss KAPTUR. Based on the testimony of this panel and the previous ones, we are certainly going to check with additional sources in the secondary market and securities dealers to see whether or not this is appealing. We will do that. We won't have time for another hearing, but we want to make sure that this thing will fly if we're going to propose it. So if you have insights or people that you think we should talk to before markup on July 14th, I hope you will suggest those names to us.

Did anyone else want to make any comment on any other provision?

[No response.]

Miss KAPTUR. All right. I just want to thank all of you again for making the extra effort to help us review this.

Mrs. Patterson, you had nothing further?

Mrs. PATTERSON. No. I just want to thank the gentlemen for their patience, because we have come in and out.

Please forgive me. I will read all the statements; if I have questions, I will certainly get back in touch.

Miss KAPTUR. I want to thank Mrs. Patterson for so ably chairing the meeting. I'm sorry; I can't make it to the floor and back in less than eight-and-a-half minutes.

Thank you, gentlemen, very much. The committee is adjourned. [Whereupon, at 3:25 p.m., the subcommittee was adjourned.]

APPENDIX

REMARKS OF MISS KAPTUR

CHAIRWOMAN, SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

JUNE 23, 1987

THE SUBCOMMITTEE WILL BE IN ORDER.

DURING THE PAST SEVERAL MONTHS, THE SUBCOMMITTEE HAS HELD EXTENSIVE HEARINGS ON THE VA HOME LOAN GUARANTY PROGRAM. WE HAVE HEARD FROM MANY WITNESSES WHO OFFERED THEIR INSIGHT AND RECOMMENDATIONS ON THIS VERY VALUABLE PROGRAM BOTH HERE IN WASHINGTON AND IN THE FIELD.

H.R. 2672, WHICH I INTRODUCED ON JUNE 11, IS A COMPOSITE OF MANY OF THESE VIEWS. I BELIEVE IT TO BE ONE OF THE MOST COMPREHENSIVE BILLS OF ITS KIND SINCE THE INCEPTION OF THE PROGRAM.

IT APPROACHES THE PROGRAM NOT ONLY FROM THE PERSPECTIVE OF ASSISTING VETERANS TO GET HOMES BUT IS ALSO GEARED TOWARDS HELPING VETERANS KEEP THEM. TOWARD THIS END, THE BILL FOCUSES ON IMPROVED SERVICING THROUGH VARIOUS MEANS. INCREASED SERVICING ON DELINQUENT LOANS SHOULD RESULT IN FEWER FORECLOSURES.

THIS WILL NOT ONLY HELP VETERANS KEEP THEIR HOMES, BUT WILL REDUCE THE GOVERNMENT'S COSTS ASSOCIATED WITH FORECLOSURES. I WAS VERY PLEASED TO NOTE THAT THE HOUSE APPROPRIATIONS COMMITTEE HAS RECOMMENDED BOTH A RESTORATION IN THE DEPARTMENT OF VETERANS BENEFITS EMPLOYMENT LEVELS AND HAS ADDED \$2 MILLION FOR HOUSING COUNSELING ACTIVITIES TO HELP DELINQUENT BORROWERS RETAIN OWNERSHIP OF THEIR HOMES. THIS MONEY WILL HELP TO CARRY OUT THE SERVICING ASPECTS OF MY BILL.

IN ADDITION, THE BILL PROVIDES A UNIFORM GUARANTY OF 30% FOR SINGLE-FAMILY, CONDOMINIUMS AND MANUFACTURED HOUSING LOANS. THIS WILL HELP VETERANS IN THEIR EFFORTS TO PURCHASE HOMES IN THE HIGHER COST AREAS AND WILL TREAT ALL VETERANS EQUALLY. UNDER CURRENT LAW, A VETERAN WITH A \$50,000 LOAN COULD BE LIABLE FOR \$27,500 -- THE SAME AS A VETERAN WITH A LOAN OVER \$100,000.

THE VA'S PROPERTY INVENTORY AND SUBSEQUENT PROPERTY DISPOSITION IS ALSO ADDRESSED. THE JUNE 14 EDITION OF THE HOUSTON POST ADVERTISES AN AUCTION ON VA FORECLOSED PROPERTIES LATER THIS MONTH. AS A MATTER OF FACT, THE ARTICLE STATES THAT THE VA IS GIVING AWAY TWO FREE PROPERTIES TO REGISTERED BIDDERS. NO OTHER PURCHASE IS NECESSARY. THIS CONCERNS ME.

INSTEAD OF DOING THIS, I BELIEVE IT MORE APPROPRIATE TO USE SOME OF THESE PROPERTIES FOR THE HOMELESS, TRAIN VETERANS UNDER THE JOBS BILL TO REHABILITATE THEM, OR OFFER "FIX-UP" LOANS AS INCENTIVES TO MOVE THEM.

IN REGARD TO THE LOAN GUARANTY REVOLVING FUND, ONE OF THE PROVISIONS CONTAINED IN THIS MEASURE IS GEARED TOWARD BUILDING UP THE LOAN PORTFOLIO IN AN EFFORT TO ASSURE FUTURE SOLVENCY. IN ADDITION, THE 1% FUNDING FEE IS EXTENDED FOR TWO YEARS. IT IS MY INTENTION, HOWEVER TO LOOK AT OTHER ALTERNATIVES IN THE FUTURE.

THE SUBCOMMITTEE'S AGENDA INCLUDES AMENDING AND MARKING UP THIS MEASURE ON JULY 14. I LOOK FORWARD TO HEARING ALL OF YOUR COMMENTS ON MY BILL.

STATEMENT OF GRADY W. HORTON
DEPUTY CHIEF BENEFITS DIRECTOR FOR PROGRAM MANAGEMENT
VETERANS ADMINISTRATION
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES
June 23, 1987

Madam Chairwoman and Members of the Subcommittee:

I am pleased to appear before you today and present the views of the Veterans Administration on H.R. 2672, the Veterans' Housing Rehabilitation and Program Improvement Act of 1987, and two additional legislative suggestions.

Section 2 of H.R. 2672 would amend 38 U.S.C. § 1816(d)(3) to provide that VA may sell vendee loans with recourse only if such loans are sold at par or above; i.e., for not less than the full unpaid balance of the loan. VA is opposed to this amendment.

The price at which VA is able to sell its loan portfolio depends upon a number of market factors, including the current market interest rates and the interest rate of the loans being sold bear. If, for example, VA is selling 8 1/2 percent loans at a time when the market demands a 10 percent return, VA would expect to sell such loans at a discount. This occurred recently when VA sold 8 1/2 percent loans for 89 percent of par. This was the fair price for these loans given the interest rate differential. VA must have the administrative flexibility to turn loan assets into cash when the Administrator determines such action is in the best interests of the Government. This flexibility is especially important now when we are operating the revolving fund with a minimal balance of resources available. Requiring VA to sell at par or above when such price is not realistic in the market restricts the discretion the Administrator needs to manage the loan program effectively.

Section 3(a) of H.R. 2672 would extend the existing 1 percent VA loan fee for 3 years. The new expiration date would be September 30, 1990.

Since the fee is scheduled to terminate on September 30, 1987, legislation to extend the fee is needed. Rather than a simple 3-year extension as the bill proposes, Madam Chairwoman, VA urges that the fee be made permanent and increased from the present 1 percent of the loan to 2.5 percent of the loan amount.

Since 1978, the Loan Guaranty Revolving Fund has required over \$2.2 billion in additional funds through transfers or appropriations in order to remain solvent. Due to high levels of foreclosures, these costs are expected to continue.

As a result of higher costs associated with property acquisitions and claim payments, a \$100 million supplemental appropriation has been requested to fund these expenses, currently estimated to be \$3.1 billion in FY 1987. If the fee remains at 1 percent, we project that an appropriation of \$389.8 million will be needed in Fiscal Year 1988. If, however, the 2 1/2 percent fee were enacted, an appropriation in Fiscal Year 1988 would not be necessary.

The VA home loan program has been and continues to be of great importance to present and former members of the Nation's Armed Forces who seek to become homeowners. Our proposal would not affect the primary program benefit, which is the no-down-payment loan terms. We believe that this group should bear a portion of the cost of providing the benefit through a modest, one-time fee. This fee, if financed, would increase the average monthly mortgage payment by less than \$10.

Fairness requires that purchasers of VA acquired properties who obtain financing from VA be required to bear costs which are comparable to those imposed upon veterans using their earned benefits.

Section 3(b) of the bill, Madam Chairwoman, would make a technical amendment to the loan fee provisions regarding surviving spouses. Currently, veterans who are entitled to receive compensation for a service-connected disability, and surviving spouses of veterans who died from a service-connected cause are exempt from paying the fee. As the law is now drafted, however, if such surviving spouse is also a veteran and has home loan entitlement in his or her own

right, the surviving spouse must pay the loan fee. It appears unjust to, in effect, penalize a surviving spouse of a veteran who died from a service-connected cause because such surviving spouse also honorably served the Nation.

Therefore, H.R. 2672 would exempt all surviving spouses of veterans who died from a service-connected disability, including those who are also veterans, from paying the loan fee. VA has no objection to this proposal.

Under section 3(c) of H.R. 2672, the Administrator would be required, before the start of each fiscal year, to estimate the total income and obligations of the Loan Guaranty Revolving Fund. If the Administrator estimates that the Fund will be solvent for the coming year, collection of the loan fee will be suspended for that year. VA opposes this proposal.

Many factors, such as changes in economic conditions and interest rates affect the Revolving Fund. VA cannot accurately project a year in advance the Fund's income and requirements. Further, VA does not consider it equitable for some veterans to be required to pay the fee, while other veterans will not pay this fee, based upon the year the veteran closes his or her loan. Additionally, VA believes that even if in some future year projections show the Revolving Fund will be solvent, the loan fee should continue to be collected to build up a reserve against possible losses in future years.

Section 4 of H.R. 2672 would change the guaranty on both conventionally built and manufactured home loans to 30 percent of the loan amount, with no maximum. VA strongly opposes this proposal.

Currently, the guaranty on conventionally built homes is 60 percent, not to exceed \$27,500. On larger loans, the actual guaranty percentage is calculated by dividing \$27,500 by the original loan principal. In FY 1986 the average loan was \$70,912. Therefore, the average guaranty was 38.78 percent.

Under this proposal, on larger loans, there would be no maximum guaranty. For example, on a \$200,000 loan, the Government's liability would be \$60,000, rather than \$27,500 under current law. Such larger loans are not uncommon in high-cost areas, such as the Washington, D.C. area and parts of southern California. We must keep in mind, Madam Chairwoman, that, presently, as the guaranty percentage decreases on larger loans, lenders require larger down payments. Thus, veterans purchasing more expensive residences now tend to obtain conventional financing. If, however, the guaranty was 30 percent of the loan with no dollar limitation, VA could expect to guarantee a significant number of large, no-down-payment loans, thereby substantially increasing the Government's contingent liability and further threatening the solvency of the Fund.

We further believe that decreasing the guaranty to 30 percent on smaller loans would hurt lower-income veterans. On a \$40,000 loan, the current guaranty is \$24,000. Under H.R. 2672, the guaranty would be only \$12,000. In such a case, accrued interest on a loan in default would rapidly increase the debt to the point where, under criteria contained in 38 U.S.C. § 1816(c), it would not be cost-effective for VA to accept conveyance of the property. This may result in lenders being unwilling to make smaller loans, thereby making it more difficult for lower-income veterans to secure housing. The VA home loan program was originally intended as a readjustment benefit to assist GIs returning from World War II in obtaining their first home. The program is not intended to assist wealthy individuals to obtain jumbo no-down-payment loans which would substantially increase the Government's liability, and could conceivably become a new drain on the already depleted resources of the revolving fund.

For similar reasons, VA believes the 30 percent guaranty on manufactured housing loans would prove insufficient for most lenders, and could result in veterans being unable to take advantage of this benefit.

Many of the following sections which we will comment on specifically deal with the general area of servicing delinquent loans. Let me stress that the VA places great responsibility on lenders for adequate servicing efforts, particularly in the first 3 months of delinquency. It is during this time

frame, when VA is typically not even notified of the delinquency, that effective servicing by a lender can be most beneficial. Most loan cures occur during this period. Servicing chronic delinquencies, especially those over 6 months, is much more time consuming and inherently more difficult.

In order to encourage adequate lender servicing, prior to a notice of default, the VA has recently established explicit lender servicing guidelines. These guidelines, which are consistent with servicing guidelines in place for most conventional loans, require regular lender contact with delinquent home owners--beginning 17 to 20 days into the delinquency--with the objective of increasing the number of early cures and identifying loans which cannot be cured before large debts are created. The VA is in the process of monitoring field station implementation and lender compliance with these guidelines.

Section 5 of H.R. 2672 would require that, upon receiving notice of a veteran's default, VA contact the veteran and provide him or her with notice of alternatives to foreclosure. VA strongly opposes this section.

In all cases, VA makes an effort to contact veterans in default and insure that appropriate loan servicing is conducted by both the loan holder and VA. Two of the alternatives to foreclosure specified in section 5 of H.R. 2672 exist under current law; i.e., a deed in lieu of foreclosure and loan refunding. VA now encourages deeds in lieu in all appropriate cases. Accepting a deed in lieu would not, however, be appropriate when there are secondary liens, the veteran has the ability to maintain the mortgage payments, or the veteran would be able to repay any post-foreclosure debt established. Likewise, VA reviews every default prior to foreclosure to determine whether refunding would be appropriate.

We must stress that providing a deed in lieu of foreclosure and having VA refund a loan in default are not vested rights of veteran-borrowers. Rather, they are tools that VA may use to assist veterans when, in the Administrator's discretion, doing so would be in the best interest of the Government. Requiring VA to notify every veteran in default of options open to VA which, in fact, may not be appropriate in that veteran's case would serve no useful

purpose and only raise false hopes for the veteran. In addition, placing this requirement in the law could lead to numerous lawsuits, including class actions, such as has been filed against other agencies, to enjoin foreclosures based upon an alleged failure to provide adequate notice. This proposal could result in substantial new costs to the VA at a time when sufficient funds do not exist to cover existing costs.

Section 6 of H.R. 2672 would amend 38 U.S.C. § 1816(c) to permit VA to establish an interest cutoff date when foreclosure is delayed by VA or as a result of forbearance granted at VA's request. VA does not object to this provision.

When foreclosure is delayed, for any reason, interest accrues on the loan. Accrued interest increases the veteran's total indebtedness. Eventually, the total indebtedness may reach a point where, under the net value formula, it will be more cost effective to pay the guaranty, rather than acquire the property. Some lenders consider it unfair that they are prevented from conveying the property as a result of delays attributable to VA when they were ready to conduct the foreclosure sooner. Interest cut off under section 6 of H.R. 2672 would be lost, and could not be included in the guaranty claim. The result of this proposal is that veterans debts could be reduced, lenders would be paid less for properties acquired, and the VA would acquire more properties. Current VA procedures permit interest cutoff when forbearance is granted. Although we have no specific proposal, it would seem fair that, if VA is responsible for VA caused delays in the foreclosure process, lenders ought to be responsible for lender related problems in the underwriting and servicing of VA loans.

Section 7 of H.R. 2672 would establish a direct loan program for veterans residing in American Samoa. VA strongly opposes this provision.

Section 1811 of title 38, United States Code, authorizes VA to make direct loans to veterans living in housing credit shortage areas. Because of the expansion of the secondary mortgage markets, and the great increase in the liquidity and availability of credit funds, direct loan programs for housing

assistance are no longer necessary in the United States. As a result, in recent years, direct loans have been used only to assist disabled veterans who qualify for specially adapted housing.

Due to the unique real property laws in American Samoa, private lenders have been unwilling to make home loans to persons residing in that territory. Under Samoan law, most land is under a communal system, and non-Samoans ordinarily may not acquire an interest in Samoan land. Court decisions make it questionable whether defaulted loans could be foreclosed by outside lenders. Section 7 of the bill provides that VA's loan would be in an amount equal to that provided by the Government of American Samoa. It is not clear if the size of the loan would be limited to \$33,000, pursuant to 38 U.S.C. § 1811(d)(3). If the territorial government provides a loan, VA may not be able to obtain a first lien (assuming any enforceable lien is possible). The proposed amendment would not address any of these issues. Regardless of whether these issues could be worked out, we do not support the expansion of our current direct loan program to nonservice disabled veterans.

VA has previously suggested that the Government of American Samoa should establish a direct loan program for its citizens. Assuming the requirements of title 38 could be met (e.g. lien requirements), loans made to eligible veterans could then be guaranteed by VA. We do not favor creating a special VA direct loan program for residents of one area when their needs can best be addressed by their local government.

Section 8 of H.R. 2672 would make two amendments relating to occupancy requirements. Section 8(a) of the bill, Madam Chairwoman, would permit veterans who have been transferred and no longer occupy the home to obtain interest rate reduction refinancing loans. This proposal was discussed in our testimony before this Subcommittee on April 22, 1987. As we advised you at that time, VA would not object to this proposal if it was limited to one-time use for foreign service and active duty military personnel who certify that they intend to reoccupy the property in the future.

The other amendment, contained in section 8(b) of H.R. 2672, would provide that a person on active duty in the Armed Forces would be deemed to occupy a property for VA loan purposes if the spouse and all the dependent children of the servicemember actually occupied the property. We understand that this proposal is intended to aid servicemembers whose duty situation; e.g., lengthy sea duty or overseas assignment, prevents them from occupying the family home. Although VA favors helping servicemembers in this situation, we cannot favor this proposal as drafted.

When reasonably possible, VA liberally construes current occupancy requirements, and looks primarily to the occupancy of the spouse in cases involving servicemembers on distant assignment. The requirement in section 8(b) of H.R. 2672 that the spouse and all of the servicemember's dependent children occupy the property, Madam Chairwoman, could cause VA to disapprove some loans that are currently approved. This would include cases where a child was away attending school, was in a long-term medical care facility, or where a child of a prior marriage resided with the former spouse.

Section 9 of H.R. 2672 would authorize the Administrator to enter into agreements, with certain organizations, or political subdivisions, to sell VA acquired properties for use by those subdivisions as shelter primarily for homeless veterans and their families. Such agreements could only be entered into if the sales would not adversely affect the VA's ability to fulfill its statutory mission and the short and long term solvency of the Loan Guaranty Revolving Fund.

Madam Chairwoman, providing assistance to the homeless is of great concern to the Veterans Administration. As we testified before your subcommittee on April 22, 1987, on S. 477, the Veterans Administration supports the idea that carefully selected real property acquired through foreclosure of VA guaranteed loans be put to use in the effort to assist homeless veterans. This section appears to meet most of the VA's requirements to protect both the program and the Loan Guaranty Revolving Fund.

In order to provide the Administrator flexibility in establishing the sales price in selling the properties to the designated entity, it is recommended that section 9(a)(2) be amended to delete in the last sentence of that section "in the best interests of homeless veterans and the Federal Government" and inserting in its place "in accordance with paragraph (3)(A)". Additionally, it is suggested that (3)(B)(iii) be deleted in its entirety as those provisions are not sufficiently objective for accurate and proper administration.

Section 9(b) of the bill would seek to promote the training of veterans under the Veterans' Job Training Act (VJTA). This proposal would permit the Administrator to make VA acquired properties available at discounts of up to 25 percent of fair market value to purchasers who agree to use veterans participating in a VJTA training program in rehabilitating the residences. These purchasers must further agree to give veterans preference in the purchase of such rehabilitated residences. This subsection would also reduce the debt of a veteran whose foreclosed property was so conveyed by an amount equal to the purchaser's discount. We strongly object to this program. The Veterans Administration is not proposing to continue the VJTA program, as the veterans unemployment rate is less than the nonveteran unemployment rate, and other employment assistance is available to veterans.

Even if the VJTA program is extended, as is being considered by Congress, we have reservations about the merits of this proposal. The VA home loan program is dependent upon the Loan Guaranty Revolving Fund to meet expenses associated with operation of the program. As I testified with regard to section 3(a) of this bill, the Revolving Fund has been substantially depleted. The purpose of acquiring and reselling properties is to minimize VA's losses from foreclosure of guaranteed loans. This proposal would increase these losses. Since offering VA acquired properties at substantial discounts would further deplete the Fund, VA opposes section 9(b) of H.R. 2672.

Section 10 of H.R. 2672 would authorize VA to include in vendee loans additional moneys to be used to rehabilitate the properties purchased from VA. VA opposes this section.

We would stress, Madam Chairwoman, that vendee "loans" do not involve a disbursement of cash, and are not intended as a benefit program. Rather, properties that secured foreclosed guaranteed loans are acquired and sold by VA as a salvage operation to recoup guaranty funds. Some properties are sold on credit terms. Sales, including credit sales, are made to the public, and not necessarily to veterans.

While VA may make repairs that are essential to preserve the property, or which are economically justified, properties are normally sold "as is." We believe most purchasers are well aware of this fact, and willingly acquire properties in need of repair for favorable price terms. Given the current high rate of foreclosures on vendee loans (three times that of a guaranteed loan), it would not be prudent to advance additional funds to risky borrowers.

Implementing section 10 of H.R. 2672 would require diverting Loan Guaranty revolving funds and staff time from our primary mission of serving veterans. We cannot favor such a diversion, no matter how worthy the goal.

Section 11 of H.R. 2672 would require that, when a veteran sells a property subject to a VA guaranteed loan to a person assuming such loan, the veteran notify the loan holder in advance, and that the holder approve the assumer from a credit and income standpoint. If the assumer were disapproved by the holder, the decision could be appealed to VA. If the purchaser were approved, the veteran would be released of liability to VA. If, however, the sale is not approved, the holder may declare the entire loan due and payable.

We believe the proposal to require credit underwriting of persons assuming VA guaranteed loans needs further study. Since our initial review of this proposal brings up both pros and cons, we prefer not to state a position at this time. The need for underwriting could increase the cost of the sale; an example of this is the Department of Housing and Urban Development's recent authorization of a processing fee, not to exceed \$500, on assumed loans. The need to underwrite would also increase the time taken to consummate the sale. Also, in a number of cases, veterans who would otherwise default on a loan are

able to avoid default by virtue of a sale, with the purchaser assuming the loan. On the other hand, a review of the credit worthiness of a person assuming a VA loan should reduce the possibilities of the loan being assumed by an unqualified purchaser, and would decrease the possibility of default and foreclosure that, in turn, becomes a liability to the veteran. We are seeking data to determine whether assumable loans are the cause of substantial numbers of defaults. Such a requirement would make the VA program more consistent with the requirements of HUD's program.

H.R. 2672 ties the release of liability to the underwriting. We would prefer that the release of liability be an option of the Administrator rather than automatically granted. There may be some cases in which the original veteran purchaser is in imminent danger of foreclosure that might be avoided through the sale of the property to a buyer who is a marginal credit risk. In those cases, it would be in the best interest of the Government to allow the sale to proceed in an attempt to save the loan but, because of the marginal quality of the buyer, to retain the right to collect from the original veteran if foreclosure is ultimately necessary.

Section 12 of H.R. 2672 would add a new section 1816A to title 38, United States Code. This section would grant the Administrator discretionary authority to assist certain veteran homeowners who are in temporary financial distress. VA strongly opposes this section.

Assistance under the new section 1816A could be provided to a veteran who currently owns and occupies a home which secures a VA guaranteed loan. The veteran must be unemployed or have suffered a substantial reduction in household income. The veteran's current VA loan (referred to as the "primary loan" in the bill) must be at least 6 months in default, but the veteran must have a reasonable prospect of resuming full payments on the primary loan within 6 months.

The bill would authorize the Administrator to make advances totaling not more than \$8,400 on behalf of a veteran to the holder of the veteran's current VA

home loan. The holder of the primary loan would use this advance to bring the primary loan current. Any remaining amount of the advance would be retained by the holder to be applied each month to future loan payments.

Amounts advanced by VA would be a debt owing to the United States by the veteran. This debt will accrue interest at the rate in effect at the time of the advance for VA loans to purchase homes, or the rate on the primary loan, whichever is less. The advance will be secured by a lien on the property securing the primary loan. The veteran would be required to repay the advance within 15 years.

When a VA guaranteed loan is reported as being in default, VA makes every reasonable effort to work with the veteran and holder to prevent foreclosure when possible. There would be very few numbers of veterans who are 6 months delinquent, who would be viewed as being good credit risks, and who would merit the extension of a new direct loan. We believe that a new Federal assistance program, based on direct loans to chronically delinquent borrowers, is not warranted and would drain resources from the Revolving Fund. Currently, the refunding program provides a similar type of relief to qualified veterans. Establishing a program to assist veterans whose home loans are in default would set an undesirable precedent for providing Federal assistance to other similarly situated individuals or groups.

Section 13 of the bill, Madam Chairwoman, proposed two amendments to our appraisal requirements.

Section 13(a) of H.R. 2672 would specify certain qualifications persons must meet to be designated as a VA fee appraiser. These include passing a written test, submitting a sample appraisal, and submitting recommendations from other appraisers. This would modify existing VA practice, and we have no objection to this proposal.

Section 13(b) of the bill would specifically authorize the Administrator of Veterans' Affairs to establish an appraisal system whereby appraisal reports

completed by VA designated fee appraisers would be received and reviewed by approved lenders without VA staff involvement. VA favors this amendment.

This system would be similar to the HUD direct endorsement program which has been in operation since 1983. This system should provide more timely service to veterans and should allow field stations to operate more effectively under current staffing constraints.

Section 14 of H.R. 2672 would exclude from a veteran's debt to the Government following the foreclosure of a guaranteed loan certain interest and costs if the veteran offered a deed in lieu of foreclosure and the Administrator refused to accept such deed. VA strongly opposes this proposal.

As I testified with regard to section 5 of this bill, accepting a deed in lieu of foreclosure is an option open to the Administrator. VA encourages deeds in lieu in appropriate cases; however, they are not appropriate in all cases. VA does not decline to accept deeds in lieu without justification. Veterans should not be able to escape partial liability by merely offering a deed in lieu where it would be contrary to the best interests of the Government to accept this offer.

Madam Chairwoman, you also requested that VA discuss two additional items. The first item is a proposal for a pilot program for VA guaranteed adjustable rate mortgages (ARMs) in one regional office.

Currently, VA sets an interest rate for guaranteed loans which is fixed for the life of the loan. In the past, VA has opposed ARMs because of difficulties encountered by borrowers in some cases. As ARMs have become more common in the industry, however, past difficulties and abuses have largely been remedied.

VA believes, with appropriate safeguards; e.g. annual and lifetime limits on rate increases, ARMs may provide a viable alternative to some veterans. Accordingly, VA would favor an appropriate test of ARMs.

The other proposal is for a 1 percent user fee for persons assuming VA loans. VA favors this proposal in concept.

Persons assuming VA guaranteed loans are receiving the advantage of the favorable terms associated with VA guaranteed financing. It is equitable that assumers should pay charges that are the same as those imposed on veterans and that these funds be deposited in the Revolving Fund. As we are proposing a 2.5 percent fee for veterans, we would suggest a 2.5 percent fee for assumptions.

This concludes my statement, Madam Chairwoman. I would be pleased to respond to your questions.

APPENDIX



Veterans
Administration

Lenders Handbook

**Guaranty or Insurance of
Loans to Veterans. . . .
GI Loan Programs**

September 15, 1977
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Change 4

Department of
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SECTION F. SERVICING OF GUARANTEED AND INSURED LOANS

1. LOAN SERVICING

a. **General.** The guaranty or insurance of a loan is in part predicated upon the understanding that adequate loan servicing will be performed by the holder. This requirement is implied in the law and expressed in the regulations. It is recognized that lending institutions generally are anxious to avoid a foreclosure and pride themselves on their low delinquency record. It also is recognized that most of the lenders who operate on a nationwide basis rely on local servicers to conduct their servicing activity. However, it should be understood that as far as VA is concerned, the acts of the servicer are those of the holder.

b. **Forbearance.** It is the policy of the VA, consistent with the beneficial nature of the law, to encourage holders to extend all reasonable forbearance in the event a borrower becomes unable to meet the terms of a loan. Its purpose is to help veteran-borrowers retain their homes without prejudicing the holders' rights under their contracts of guaranty or insurance. Accordingly, the regulations give the holder broad discretion in extending or recasting the terms of repayment in order to cure a default or to avoid imminent default. Rather than to continue carrying a delinquent loan in default, consideration should be given to an extension which will remove the case from the default category and give the borrower the renewed outlook which frequently will be brought about by a reinstated obligation. Another means of curing a default is through reapplication of prepayments; any prepayment may be reapplied to cure an outstanding default. Similarly, the acceptance of partial payments from borrowers in temporary distress is encouraged when sound judgment indicates that such acceptance would assist in curing the default. In general, it may be said that as long as a holder is willing to go along with a worthy veteran, the VA is willing to go along with the holder. Further, the regulations do not specify a time limit within which foreclosure action must be instituted or a claim must be filed. Moreover, interest accrual does not cease at any given time (unless action is taken to liquidate the security), except in the case of unsecured loans or if no security is available. The notice of default required is primarily for VA administrative purposes and should not be construed as being in derogation of the above-stated policy. The policy of forbearance has application to the borrower in distress and not to the borrower having the ability but who is unwilling to repay an obligation.

c. **Extent of Servicing.** The VA does not prescribe in detail the manner in which loans should be serviced. However, holders are expected to follow or to require their servicing agents to follow accepted standards of loan servicing, such as are employed by prudent lenders generally in servicing their portfolios of similar-type conventional loans. Good judgment must be exercised in each case, according to the particular facts and circumstances. In almost every case, this must be accomplished by direct contact (i.e., telephone conversation or personal visit) with the borrower, so that the reasons for the default can be discussed frankly and the possible alternatives for curing the default can be explored thoroughly. VA may, when circumstances warrant, supplement the holder's efforts in connection with the servicing of loans in default. However, this will not relieve the holder of its responsibility for adequate primary servicing of each defaulted account in its portfolio. In any event, it is not expected that holders will institute action to terminate loans until every reasonable effort has been made to arrive at some solution which would permit the borrower to retain his or her home.

d. **Minimizing Losses.** When it becomes apparent during the course of servicing a defaulted loan that the situation is hopeless, every effort should be made to minimize the ultimate loss of all parties concerned. Borrowers in such cases should be urged to sell their property in order to realize any equity and to avoid termination of loans. A number of cases may be thus resolved without the necessity for filing a claim or forcing liquidation of the security. If liquidation is unavoidable, a deed in lieu of foreclosure should be suggested to the borrower in appropriate cases. While the acceptance of a voluntary conveyance requires VA's prior approval, it will usually be in VA's best interests to give that approval whenever there is a savings in liquidation expenses, in obtaining possession or in avoiding a redemption period, compared with the remote possibility of collecting a debt from the borrower if termination is by foreclosure. If a deed in lieu of foreclosure or voluntary conveyance of the security is obtainable and it is legally feasible to accept such conveyance, reference should be made to the additional information contained in section G.

2. **INSPECTION OF PROPERTIES.** Neither the law nor the VA regulations require that a holder inspect properties which are the security for their guaranteed and insured loans. However, we expect holders to follow recognized accepted practices of prudent lenders in this respect.

3. **ADVANCES.** A holder may advance any amount reasonably necessary and proper for the maintenance or repair of the security or for the payment of accrued taxes, special assessments, ground or water rents, or premiums on fire or other casualty insurance against loss of or damage to such property and any such advance so made may be added to the guaranteed or insured indebtedness.

4. EXTENSIONS AND REAMORTIZATION

a. **General.** Any agreement entered into between the holder and the borrower to extend or reamortize the loan should be reduced to writing and signed by the parties. Accrued unpaid interest may be included in the loan indebtedness extended or reamortized. Likewise, it is permissible to include the deficit in the tax and insurance account in the indebtedness to be extended or reamortized in order to bring the account up to the level it would have been had the borrower paid the required installments timely.

b. **Approval by VA.** It is not necessary to obtain the approval of VA to an extension or reamortization agreement if the loan is in default provided

(1) That as a result thereof no obligor is released from personal liability; or, if an obligor will be released from personal liability, that the conditions set forth in VA Regulation 4314(D) are met; and

(2) At least 80 percent of the loan balance extended will be amortized within the maximum maturity prescribed for loans of its class (30 years for guaranteed or insured home loans).

If these two requirements are not met, a holder should submit the facts of the case to the appropriate VA regional office and obtain its approval of the transaction before entering into the agreement.

c. **Notification to VA.** VA does require that an advice of the terms of the agreement (preferably a copy of the extension or reamortization agreement) be forwarded to the appropriate VA regional office after the agreement has been executed.

5. PREPAYMENTS

a. **Requirements.** The borrower has the right to prepay at any time, without premium or fee, the entire indebtedness or any part thereof not less than the amount of one installment or \$100, whichever is less. Any prepayment made on other than an installment due date need not be credited until the next following installment due date, or 30 days after such prepayment, whichever is earlier. Payment in full must, however, be accepted and credited to the loan account when tendered, and no interest may be charged thereafter.

b. **Reapplication.** The holder and the borrower may agree at any time that such prepayment shall be reapplied for the purpose of curing or preventing any subsequent default.

6. **PARTIAL PAYMENTS.** When a partial payment (i.e., a payment less than the total monthly payment or a payment of one installment when two are due, etc.) is received, the borrower should be immediately contacted to determine why the full amount was not remitted. If the borrower appears to have a proper regard for the mortgage obligation and is conscientiously trying to meet that obligation, partial payments should be accepted, provided that the remaining amount due is expected to be paid within a reasonable period of time. VA encourages such acceptance when it appears that such action will assist in curing a delinquency.

7. COLLECTION FEES

a. **Late Charges.** A late charge may be collected in an amount not in excess of 4 percent of any installment received more than 15 days after its due date, provided the loan instruments contain an express provision for such late charge. For example, a late charge may not be collected on an installment due on the first of the month if it is paid on or before the 16th of the month, but may be collected if the installment is paid on or after the 17th of the month. The delinquent installment must have been paid before the late charge may be made. Also, the late charge may not be based on an amount greater than the past due installment. Late charges may not be collected from the trust account or deducted from regular installments received and may not be included in a claim under

the guaranty or in any accounting with VA. Collection of late charges can only be effective if the borrower is able to pay on time but does not do so. When a borrower is cooperative but unable to pay, consideration should be given to waiver of late charges.

b. **Collection Fee.** If the default has continued for a sufficient period to permit the holder to submit notice of intention to foreclose, or to take other action under the regulations, a reasonable fee collected by an attorney or trustee upon payment of the arrears (or a part thereof) by a borrower and a reinstatement of the loan will be allowed without prior approval of the VA. Otherwise, the imposition of an attorney's or trustee's fee for the collection of past due installments, except with the prior approval of the VA, will require deduction of the amount by which such fee exceeds the maximum allowable under VA regulations in respect to a claim filed on the guaranty or insurance or in the final accounting.

8. TAXES AND INSURANCE

a. **Payment of Taxes.** Security instruments uniformly require the obligor to pay taxes timely to prevent them from becoming a lien taking priority over the mortgage. VA regulations impose a responsibility upon the holder to maintain the priority status of its mortgage lien. The regulations further define a failure to pay taxes when due as a default which must be reported to VA if such failure persists for 180 days.

b. **Maintenance of Hazard Insurance.** VA regulations also impose a responsibility upon holders to require insurance policies to be procured and maintained in an amount sufficient to protect the security against the risks or hazards to which it may be subjected to the extent customary in the locality. Failure to do so may result in an adjustment in the amount payable under the holder's contract of guaranty or insurance with VA in the event claim is subsequently filed and there has been a loss which normally should have been covered by hazard insurance. Any question as to the type of insurance coverage "customary in the locality" should be addressed to the local VA regional office in the area where the property is located. If the hazard insurance is canceled (other than for nonpayment of premium) or renewal is refused and if coverage cannot then be obtained through a State pool or otherwise, except at prohibitive cost, the holder should promptly notify the VA office of jurisdiction.

c. **Amount Required.** The amount of hazard insurance required by holders will be limited to the insurable value of the property or the amount of the loan, whichever is lesser. However, this does not preclude the taking out of a larger policy if the obligor desires to do so. Insurance tie-in practices are objectionable and should be avoided. Subject to reasonable requirements of mortgagees as to insurance carriers, the borrower is entitled to freedom of selection in placing or renewing insurance coverage. (See sec. C, par. 14; sec. F, par. 8b; and sec. H, par. 4.)

d. **Application of Loss Payment.** All moneys received under insurance policies covering payment of insured losses must be applied to restoration of the security or to the loan balance. Any other disposition of loss proceeds desired by the parties must be approved in advance by VA. Holders should consult VA in any total or near total loss case before consenting to an insurance settlement if it appears that the settlement proceeds will not be sufficient to pay off the loan balance or to restore the security. Upon request, VA will assist holders in obtaining the services of compliance inspectors, at the holder's or borrower's expense, to assure satisfactory restoration of the security if the settlement proceeds are not to be applied to the loan balance.

e. **Escrow Accounts.** Neither the law nor VA regulations require holders to collect periodic deposits for taxes and insurance or maintain a tax and insurance account. However, the establishment and maintenance of such an account is considered to be advantageous to all parties concerned and provision is made therefor in all VA approved mortgage and deed of trust forms.

f. **Disposition of Excess Balances.** An excess balance accumulated in a tax and insurance account constitutes security for the loan within the meaning of VA Regulation 4324 and, hence, should be disposed of as provided in the loan agreement. However, in addition to applying such excess balance to reduce future periodic payments for taxes and insurance, the VA has no objection to disposing of such an excess balance:

(1) By crediting it to the payment of delinquent installments, provided no obligor is fully released from all liability on the indebtedness as a result of such action;

(2) By applying the excess to the principal balance, provided there is an agreement between the holder and all obligors (and the owners of the realty if they are not also obligors) to apply the surplus in such manner;

(3) By paying the excess to the owner of the property provided:

(a) The loan is current;

(b) The consent of the owners of the property is obtained; and

(c) No obligor is fully released from all liability on the indebtedness as a result of such disposition.

If any obligor(s) will be fully released from all liability (as contrasted with a pro tanto release) by disposing of the excess balance in the manner set forth in subparagraph (1) or (3), the individual case may be submitted to the appropriate VA regional office for approval.

9. SALE OF PROPERTY

a. **Right to Sell.** The law gives the owner of property which is security for a guaranteed or insured loan (whether the owner be the original veteran or a transferee) the right to sell the property to anyone or on any terms. This is a valuable right since it influences the price which the owner can obtain for the property and makes it much easier to dispose of the property. Consequently, VA cannot condone any restriction, charge or fee imposed by a holder or its servicing agent which has the effect of limiting or nullifying this right.

b. **Charging of Fees.** The VA does not approve of the charging of any fees by holders or their servicing agents for recording a change of ownership of the mortgaged property. Nevertheless, while not approved by VA, it will not be considered improper to make a charge for recording a change in ownership provided the parties involved agree thereto or such charges are permissible under the loan agreement and are reasonable in amount. The VA will consider a charge in excess of \$35 for recording a change in ownership to be unreasonable, regardless of whether or not there is also a substitution of liability on the mortgage.

10. RELEASE OF VETERANS FROM PERSONAL LIABILITY

a. **Liability of the Veteran.** In accordance with the laws of the States, the original mortgagor remains liable on the mortgage indebtedness unless he or she is released from personal liability, either specifically or by operation of law, even though he or she may no longer own the property. Under Federal law and VA regulations pertaining to guaranteed and insured loans, the original veteran-borrower is obligated to indemnify the Government for any amount VA is required to pay the holder under the contract of guaranty or insurance, regardless of whether a deficiency judgment was obtained, regardless of any State law purporting to prohibit or limit the collection of a deficiency, and regardless of the fact that the veteran was not the owner of the property at the time of the foreclosure or claim payment. This indemnity obligation is in addition to any rights VA may acquire by subrogation from the holder.

b. **Requirements for Release of Liability.** To give veterans an opportunity to obtain a release from potential liability to the Government when the home is sold and the transferee agrees to assume the guaranteed or insured loan, the law provides that, whenever any veteran disposes of residential property securing a guaranteed or insured loan and permits the transferee to assume the loan, the VA, upon application made by such veteran and the transferee, is required to release the veteran from liability to the Government on the loan provided three conditions are met. These conditions are that (1) the loan must be current; (2) the purchaser qualifies as an acceptable credit risk; and (3) the purchaser assumes the obligations and liability of the veteran on the loan (including the indemnity obligation of the veteran), evidenced by an agreement in writing in such form as the VA may require.

c. **Provisions of Release.** The party assuming the guaranteed or insured loan need not be a veteran. Further, the fact that the veteran sold or is selling his or her home at a profit does not preclude the veteran from taking advantage of this procedure. Also, the release granted the veteran by VA will inure to the benefit of his or her spouse.

d. **Effects on Holder.** Neither the law nor VA regulations require a holder to release the veteran from liability to it. Further, the release of a veteran from liability to VA on his or her loan will in no way affect the rights which the holder may have to proceed against the veteran. However, the fact that VA consents to release of the veteran upon the assumption of liability by the veteran's immediate or remote transferee will constitute prior approval for the holder also to grant a release of the veteran's liability to it. Hence, there is no appreciable disadvantage to the holder in not releasing the veteran, also. In the event VA releases the veteran from liability to the Government, the holder's contract of guaranty or insurance with VA is not affected, regardless of whether the holder does or does not release the veteran from liability to it.

e. **Processing of Applications.** The processing of releases from liability has been assumed by VA, although it is necessary to call on holders for certain information required to determine that the conditions prescribed by the law are met.

11. RELEASE OF SECURITY

a. **General.** VA Regulation 4324 governs the rights and liabilities of holders and the VA when partial releases of security are involved. If a holder fails to comply with this regulation and the loan subsequently becomes in default resulting in a claim being filed under the guaranty, the VA will apply the provisions of VA Regulation 4325(B) in order to determine the amount, if any, by which its ultimate liability has been increased. The VA will be released from all liability as guarantor or insurer (1) if a holder releases a portion of the security from the lien without VA's prior approval and (2) by reason of such partial release any obligor is released from personal liability on the entire loan indebtedness.

b. **Request Procedure.** Requests for prior approval of releases of security, preferably in letter form, must be submitted to the VA regional office which issued the evidence of guaranty or insurance on the loan. The request should be signed by the holder and all obligors on the loan. A release of part of the security without the joinder in the request by all persons liable (both primary and secondary) on the loan may operate to release such obligors from personal liability, at least to the extent of the value of the property released. If any person liable on the loan does not join in the request for the partial release of security, an explanation of such failure must accompany the request. The request must be accompanied by at least a rough sketch of the entire property, with the parcel to be released clearly indicated. The dimensions of both parcels shall be shown as well as the approximate location of any buildings. The request also must contain information showing: (1) the balance of the loan; (2) whether the loan is current; and (3) the amount of the consideration to be received for the property to be released. If it is proposed to apply the consideration in a manner other than that permitted under VA Regulation 4324(C), details of the distribution must be furnished. Depending on the factual situation, VA may cause a land survey of the property and an appraisal showing the reasonable value before and after the partial release to be made. The persons requesting the release will be required to pay the expense of the appraisal and land survey whether or not VA approves the request.

12. NOTICE OF DEFAULT

a. **Time Requirements for Notice.** Notice must be forwarded to the VA within 45 days after a debtor is in default (1) by reason of nonpayment of any installment for a period of 60 days from the date of the first uncured default, or (2) by failing to comply with any other covenant or obligation of such guaranteed or insured loan, which failure persists for a continuous period of 90 days after demand for compliance therewith has been made, except that if the default is due to nonpayment of real estate taxes, the notice shall not be required until the failure to pay when due has persisted for a continuous period of 180 days. Failure to advise the VA of a default may result in a reduction of the guaranty or insurance liability.

b. **Submission of Notice.** Defaults should be reported on VA Form 26-6850, Notice of Default. This form should be completed in detail and submitted to the VA regional office in whose jurisdictional area the property is located. Holders and servicers should be aware that some larger States (e.g., California and Texas) have more than one regional office and that each office has a separate area of jurisdiction.

c. **Evidence of Servicing.** The notice of default serves a dual function: (1) notice to VA of a potentially imminent liability under the guaranty, and (2) assurance to VA that adequate primary servicing has been performed so that the beneficial homeownership purposes of the governing law are promoted. The notice should not be given prematurely; i.e., before a conscientious effort to cure the default has been made. Indeed, the notice

cannot very well be filled out properly unless preceded by genuine servicing efforts. The submission of the form does not preclude the holder from continuing curative servicing efforts. The holder is not required, upon forwarding such notice, to accelerate the debt or to begin termination action unless expressly directed by the VA to do so. If a notice reflects inadequate servicing, VA may advise the servicer and/or the holder, as appropriate, that further servicing is expected and that an amended notice should be submitted.

d. **Notice of Cured Default.** Whenever a loan default previously reported to VA has been cured, advice should be forwarded to the VA office of jurisdiction, in order that VA may document its records accordingly. There is no particular form used for giving this notice. It should be noted that, once a default has been cured or a loan account reinstated and the loan account subsequently goes into default, the holder will be required to file a new notice of default as prescribed in subparagraph a above.

13. NOTICE OF INTENTION TO BEGIN ACTION

a. **Time Requirements for Notice.** Notice of intention to foreclose or otherwise terminate the debtor's rights in the security for a guaranteed or insured loan is not required to be given with, or within any limited time after, the notice of default. This is to afford the holder ample opportunity to exhaust all reasonable efforts to effect a cure of the default through adequate loan servicing. Barring exceptional circumstances (e.g., hazard to the security or material prejudice to the rights of the holder or the VA) such notice should not be given until the default has continued for 3 months. The notice may properly be given if the default is due to nonpayment which has continued for 3 months, even though some payment, but less than the amount due, may have been made subsequent to such default.

b. **Submission of Notice.** The form of notice, VA Form 26-6851, Notice of Intention to Foreclose, should be completed to the extent the information required is available to the holder. It must be posted by certified or registered mail to the VA regional office at least 30 days prior to the commencement of any action to liquidate the security for the loan. If, however, the circumstances warrant immediate action to protect the interests of the holder and of the Government (e.g., waste, abandonment, etc.), the holder may take action without advance notice, but within 10 days thereafter he or she must submit the notice, together with a full explanation of the reasons for the action taken. Failure to give proper notice may result in a reduction in amount of the guaranty or insurance liability.

c. **Liquidation of the Security.** The holder may proceed to liquidate the security in any lawful manner, irrespective of whether the personal liability of the obligors will thereby be released, unless within 15 days after receiving the notice of intention to foreclose the VA notifies the holder that its rights in personam against the obligor(s) must be preserved. Due consideration should be given to the most economical and expeditious means of liquidation so that the best interests of all concerned will be served.

d. **Occupation of the Property.** In the notice of intention to foreclose, the holder should inform the VA as to the present occupants of the property and the nature of the occupancy if this information is available. However, this information should be furnished to the VA when the notice of sale is forwarded to VA in those jurisdictions where the sale is held a considerable time after the institution of foreclosure. If the occupants are tenants, the essential terms of their tenancy should be set forth. In addition, the holder should advise the VA with respect to any special assessments, unpaid taxes, water rents, ground rents, or similar items which create liens against the property superior to those of the mortgage or which will interfere with full use of the property. If judicial foreclosure proceedings are initiated, all persons in possession must be included as parties defendant therein, and the pleadings and final judgment or decree must evidence the fact that the rights of any parties in possession have been terminated.

e. **Action by VA.** It is the desire of the VA to cooperate with holders in order to effect a proper liquidation of the security as promptly as circumstances may warrant in order to assure recovery of the maximum amount of the guaranty or insurance paid or payable. For the accomplishment of these objectives, the circumstances in each particular case will be considered and the VA will decide what action, if any, it desires to take for the protection of its interests.

14. **REINSTATEMENT FROM FORECLOSURE.** After the foreclosure has started and at any legally permissible time prior to sale, the holder should allow reinstatement of the loan in appropriate cases if the borrower tenders all amounts required to bring the account current, including reasonable legal expenses properly

associated with the foreclosure action. If the borrower tenders the full amount required to reinstate the account, except for all or part of the legal expenses, the holder should seriously consider the potential long-range advantage of allowing reinstatement of the loan and of arranging for repayment of the unpaid expenses in installments over a reasonable period of time.

15. SUSPENSION OF LENDERS AND HOLDERS. The VA is authorized to refuse, either temporarily or permanently, to guarantee or insure any loans made by a lender or holder or bar a lender or holder from acquiring guaranteed or insured loans in any case when such lender or holder has failed to maintain adequate loan accounting records, or to demonstrate proper ability to service loans adequately, or to exercise proper credit judgment, or has declined to make guaranteed or insured loans to an eligible veteran because of the applicant's race, color, religion, sex, or national origin (see sec. I, concerning the policies and requirements of the VA pursuant to equal housing opportunity) or has willfully or negligently engaged in practices otherwise detrimental to the interests of veterans or of the Government.



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Mortgage Bankers Association of America

STATEMENT OF

THOMAS M. FRENCH, JR.
CHAIRMAN OF THE BOARD
BANCOSTON MORTGAGE COMPANIES, INC.
JACKSONVILLE, FLORIDA

on behalf
of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

COMMITTEE ON VETERANS' AFFAIRS
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

Hearings on

The Veterans' Housing Rehabilitation and Program
Improvement Act of 1987

June 23, 1987

Madam Chairwoman and members of the Subcommittee, my name is Thomas M. French, Jr. I am Chairman of the Board of BancBoston Mortgage Companies, Inc., of Jacksonville, Florida. I am also President of the Mortgage Bankers Association of America (MBA).^{*} Accompanying me today are Burton C. Wood, MBA's Legislative Counsel, and Linda K. Bumbalo, MBA's Associate Legislative Counsel.

MBA appreciates the opportunity to appear before you today to testify on HR 2672, the "Veterans' Housing Rehabilitation and Program Improvement Act of 1987." Madam Chairwoman, we commend you on your efforts to address the problems facing the Veterans Administration (VA) home loan guaranty program and your great interest in assisting veterans become and remain homeowners. At the same time, you have recognized that private sector participants play a vital role in the implementation of the home loan guaranty program.

The darkest cloud hanging over the home loan guaranty program is the no-bid crisis, which has been exacerbated by steep depreciation in home values in some regions of the country and by VA delays in administering foreclosure cases. MBA urges Congress to evaluate the entitlement nature of the VA program and to determine whether it should continue as presently structured. Given the no-bid situation under the current framework of the program, it is uncertain whether veterans in all parts of the country will be able to secure VA home loans.

The authority for the claim payment formula used to determine whether a foreclosure will be a no-bid is scheduled to expire on September 30, 1987. At a minimum, if the no-bid formula is extended, the extension should be a temporary one, and changes should be made that would reduce the number of no-bids that are caused by depressed property values and by delays in the foreclosure process. In particular, MBA urges that the claim payment formula be modified to limit the losses suffered by lenders on VA no-bids that are a result of steep depreciation in home property values due to depressed economic conditions. In addition, accrued interest should not be included in the no-bid formula in certain cases where there are delays in the foreclosure process beyond the control of the lender. MBA specifically proposes several changes to the formula that are presented in detail in our comments on the proposal regarding the calculation of interest on defaulted loans.

MBA will continue to work closely with the Subcommittee, the Committee, the Congress, and the VA with the hope that the home loan guaranty program can fulfill its goals and objectives of helping veterans buy and remain in their homes. To that end, we offer our recommendations on HR 2672 on which you have asked us to comment and on two additional items submitted for consideration.

SALE OF VENDEE LOANS

Section 2 of HR 2672 would amend 38 USC 1816 (d) (3) dealing with the sale of notes securing vendee loans. Under current law, the Administration may sell such notes with recourse only when it is necessary for the effective functioning of the loan guaranty program. The amendment would permit the sale of such notes with recourse only at the amount of the loan's outstanding balance.

MBA opposes the amendment. It is not clear from the language what is intended by the provision. However, the prohibition against a recourse sale at an amount less than par would seem to preclude the sale of notes with recourse. Notes with less than current

^{*}The Mortgage Bankers Association of America is a nationwide organization devoted exclusively to the field of housing and other real estate finance. MBA's membership comprises mortgage originators and servicers, as well as investors, and a wide variety of mortgage industry-related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, selling, and servicing real estate investment portfolios. Members of MBA include:

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| o Mortgage Banking Companies | o Mortgage Brokers |
| o Commercial Banks | o Title Companies |
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| o Savings and Loan Associations | o Investment Bankers |
| o Mortgage Insurance Companies | o Real Estate Investment Trusts |
| o Life Insurance Companies | |

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interest rates would have to be sold at a discount. The proposed restrictive language would seem, therefore, to ensure the sale of notes securing vendee loans without recourse. MBA would oppose this.

The General Accounting Office concluded in a September 1986 report, LOAN ASSET SALES: OMB Policies Will Result in Program Objectives Not Being Fully Achieved, that the sale of loan assets without recourse would preclude the government from taking advantage of existing secondary credit markets and from maximizing proceeds from loan sales. It can be expected that the reduction in the sales price paid to the Government by private industry buyers of vendee loans without recourse will be greater than the deficit savings the Government might realize by transferring the risk of default. The assets would have to be sold at deep discounts, resulting in losses to the Loan Guaranty Revolving Fund that would have to be replaced with appropriations.

It is important to note that only vendee loans sold with recourse can be put into mortgage pools backing GNMA securities. If these loans are sold without recourse, these mortgages could not be placed in GNMA pools, thus losing the attractive investment and marketing advantages offered by GNMA. This means the loans would be sold at unnecessarily depressed prices, or might be altogether unmarketable.

MBA recommends 38 USC 1816 (d) (3) be amended to read that "the Administrator shall sell, when it is necessary for the effective functioning of the loan guaranty program, with recourse, any note, securing such a loan for an amount that the Administrator determines to be the maximum amount for which the note can be sold."

Alternatively, MBA urges that the existing language not be amended.

LOAN FEE

Section 3 (a) of HR 2672 would amend 38 USC 1829 (c) to extend the 1 percent loan fee to September 30, 1989. MBA does not oppose the temporary extension of the loan fee, which is due to expire on September 30, 1987.

Section 3 (c) would create a new mechanism for suspending the 1 percent fee in any fiscal year when the Administrator estimates at the beginning of that fiscal year that there will be a surplus in the Loan Guaranty Revolving Fund (the "Fund").

MBA opposes this proposal on several grounds. First of all, it is impracticable to predict with the accuracy necessary for such a crucial determination that there will be a surplus in the Fund. Given that the legislative and executive branches each has a budget office that uses different assumptions in their separate budget processes, it is easily foreseeable that the numbers used to estimate a surplus would be subject to dispute. Second, because the solvency of the Fund over time is so critical to the operation of the home loan guaranty program, it is only prudent financial management to have the years when there is a surplus in the Fund subsidize those years when there is not a surplus, and thereby minimize the need for appropriations in those non-surplus years. Lastly, it would be inequitable to veterans who have to pay the loan fee in one fiscal year to excuse veterans in another fiscal year from paying the fee simply because of an estimated Fund surplus. This estimated surplus would be a serendipitous event from which not all veteran homebuyers in the same two-year period during which the fee is extended (October 1, 1987, to September 30, 1989) would benefit.

GUARANTY AMOUNT

Section 4 of HR 2672 would amend 38 USC 1803 (a) (1) and 1819 (c), and repeal 1810 (c), so that the maximum guaranty amount paid to a lender of a VA home loan would be a flat 30 percent of the loan. This amendment would be a reduction from the current maximum of 60 percent of the loan and would eliminate the \$27,500 cap on that maximum amount. While this proposal may facilitate VA home loans in some high cost areas where they currently are not feasible, the overall effect would be a disservice to veterans at the lower end of the loan scale.

The average VA home loan amount in 1986 was \$70,000, with an average purchase price of \$73,000. The average loan-to-value ratio was 95.8 percent. (See Exhibit 1.) These average loan and purchase price amounts are below the 1986 median sales price for all homes of \$82,318. These figures show that the VA home loan program currently serves the lower end of the homeownership scale. A 30 percent maximum guaranty would not serve this market because the guaranty amount would not be high enough. Currently, a \$70,000 VA loan is guaranteed up to the lesser of \$27,500 or 60 percent of the loan amount (which is \$42,000). The guaranty amount, therefore, is \$27,500. Under a flat 30 percent guaranty on a \$70,000 loan, the guaranty amount would be \$21,000, or \$6,500 less than under current law.

This reduced guaranty is unacceptable for two reasons. First, the VA loan is acknowledged to be a higher risk loan. As stated, the average LTV is 95.8 percent, which is much higher than the conventional loan market permits. The lender of a VA home loan does not control the property value; that determination is made by the VA. Also, VA underwriting guidelines are more flexible than for other kinds of mortgages. In other words, the VA-guaranteed loan is intended for the veteran who might not otherwise qualify for a mortgage. A \$27,500 guaranty for such a loan is not unreasonable.

The second reason MBA opposes the 30 percent guaranty is that it would exacerbate the no-bid crisis and cause lenders to suffer even higher losses. Under the claim payment formula, if, after calculating the amount of the loss from the loan on the property, the loss is more than the guaranty amount, the VA pays the guaranty amount and the lender keeps the property. On the other hand, if the loss is less than the guaranty amount, the VA pays the lender the loan amount and acquires the property. By reducing the guaranty amount, which is used in the formula, lenders would be faced with more no-bids.

Consider the following examples:

In Example 1, the net value of the property and the loss amount are the same in both cases, and it is the differential in the guaranty amount that determines whether the lender suffers increased losses.

Example 1:

	<u>Guaranty Amount</u>	
	<u>Current</u>	- <u>Proposed</u>
Debt	\$70,000	\$70,000
Net Value of Property	<u>46,000</u>	<u>46,000</u>
Loss	\$24,000	\$24,000
Guaranty Amount	<u>27,500</u>	<u>21,000 (30%)</u>
Loss Is Less Than Guaranty Amount	\$ 3,500	Loss Is More Than Guaranty Amount \$ 3,000
	<u>VA Acquires</u>	<u>No-bid</u>

In Example 2, the figures show that a no-bid is created, and the lender's losses are increased, at a much higher net value under the proposed 30 percent guaranty amount. The net value of the property is \$6,500 higher than under the current system when a no-bid is created.

Example 2:

	<u>No-Bid Threshold</u>	
	<u>Current</u>	<u>Proposed</u>
Debt	\$70,000	\$70,000
Net Value of Property	<u>42,499</u>	<u>48,999</u>
Loss	\$27,501	\$21,001
Guaranty Amount	<u>27,500</u>	<u>21,000 (30%)</u>
Loss Is More Than Guaranty Amount		Loss Is More Than Guaranty Amount
	<u>No-bid</u>	<u>No-bid</u>

For these reasons, MBA strongly opposes Section 4 of HR 2672. We urge that the current guaranty amount in 1803 (a) (1) be retained and the amount in 1810 (c) be increased from \$27,500 to \$35,000 as provided for in S 9, the "Service-Disabled Veterans Improvement Act of 1987," introduced on January 6, 1987, by Senator Alan Cranston, to reflect the increase in home sales prices. (See Exhibit 2.) In the proposed amendment where the guaranty amount would be a single flat percentage of the loan, the percentage would have to be at least 50 percent in order to serve the low end of the market and the high risk loan, which are the goals and objectives of the VA home loan guaranty program.

DEFAULT ASSISTANCE

Section 5 of HR 2672 would amend 38 USC 1816 (a) by providing that the VA contact the veteran with appropriate information in cases of default about curing the default and alternatives to foreclosure, as well as in cases of foreclosure about the liabilities of the veteran and the VA. MBA commends you, Madam Chairwoman, on your efforts to provide veterans with financial counseling in cases where they are faced with losing their homes.

MBA agrees that it is the responsibility of the VA to initiate the contact with the veteran and attempt to alleviate, where possible, the veteran's difficult financial situation. Therefore, MBA opposes the proposed language, beginning on page 4, line 25 and ending on page 5, line 2 of HR 2672, which states, "unless the Administrator has received satisfactory assurances that the lender has adequately advised the veteran with respect to such matters." MBA strongly urges the elimination of this language. It appears to make the financial counseling responsibility of the VA only a contingent one. Only the VA, not the lender, is in a position to know what options the VA would be amenable to on a case-by-case basis and what funds the VA has available for various options such as refundings. In addition, the VA is not only in the best position, it is the only entity in a position, to advise the veteran about liability on the loan and ways to reduce it.

MBA recommends that in the proposed paragraph, 1816 (a) (4) (A), a comma be inserted after the word "default" in order to clarify the substance of the provision.

INTEREST CALCULATION ON DEFAULTED LOANS

Section 6 (a) of HR 2672 would amend 38 USC 1816 (c) (1) (D) (ii), which is the definition of "total indebtedness" used in the case of a liquidation by a holder of a defaulted loan. It should be noted subsection (c) of 38 USC 1816 is due to lapse on September 30, 1987.

MBA opposes this amendment, which penalizes lenders by removing from claimable debt interest that has accrued on the defaulted loan. To authorize the Administrator to determine that accrued interest is not part of the veteran's total indebtedness to the lender is inequitable. The lender should be reimbursed for interest that accrues on a defaulted loan because of a delay in the foreclosure sale caused by the VA or by the lender's forbearance at the request of the VA.

MBA respectfully submits that its legislative proposal to alleviate the creation of no-bids caused by the accrual of interest on defaulted loans is a more appropriate way to address the problem. As stated in our testimony on April 22, 1987, before this Subcommittee, in many cases it is the accrual of interest during delays in the foreclosure process, when the lender is in a position to foreclose, that turns liquidations into no-bids. Although the delays caused by bankruptcies and VA processing backlogs are beyond the control of the lender, the lender suffers the loss because of the calculation used to determine the payment of the claim. These types of delays should not be held against the lender.

MBA urges that the amount of interest included in the no-bid calculation, if 1816 (c) is extended, be limited to 90 days, which is the customary default period prior to the initiation of foreclosure. MBA believes that to implement this change, additional language to 38 USC 1816 (c) (8) would be appropriate, so that it would read as follows: "If the net value of the property securing the loan is not greater than the amount of the total indebtedness excluding interest accrued beyond 90 days under the loan minus the amount guaranteed under this chapter. . . ."

This change would limit the amount of interest used in the claim payment formula so that no-bids due to interest accrual are reduced while at the same time reimbursing lenders for the interest accrued on the loan as of the date of the liquidation sale in cases where the VA acquires the property.

Section 6 (b) of HR 2672 makes this provision applicable only to new loans. MBA strongly urges that this limitation on interest accrual apply to all loans in default at time of enactment and all loans subsequently entering default.

Relief for decline in values. MBA urges Congress, if it chooses to extend the VA no-bid formula, to make changes for determining claim payments to take into consideration the extraordinary plight of both homeowners and lenders in areas of serious economic distress, with a view toward significantly lowering the number of no-bid cases and lessening the harsh treatment to lenders in such areas.

MBA urges specific legislation to limit the amount of losses from VA no-bids that result from steep depreciation in property values due to depressed economic conditions. This change in the claim payment formula will address geographic disparities by evaluating the depreciation in property values on a case-by-case basis.

MBA proposes that in the case of a no-bid where the value of the property has declined more than 15 percent, the lender should have the option of either (1) being paid the amount of the guaranty and taking title of the property, or (2) conveying the property to the VA and forfeiting 5 percent of the amount of the outstanding debt at the time of liquidation.

To implement this proposal, MBA recommends the following changes be made to 38 USC 1816 (c):

1. Amend 1816 (c) (1) (C) (i) to read, "the fair market value of the property at time of liquidation." This would define fair market value in greater detail.
2. Amend 1816 (c) (1) by adding (E) as follows: "The term 'original value' means the appraised value of the subject property used as the basis for the guaranty." This is necessary to define the term "original value" used in proposed language for 1816 (c) (8) (C), as follows.
3. Amend 1816 (c) (8) by adding (C) as follows: "The only exception to this paragraph (8) applies to defaulted loans where the Administrator determines that the fair market value of the property at the time of liquidation is more than 15 percent below the original value of the property and that the mortgagee bears no responsibility for such decline. In such cases, the Administrator shall provide the mortgagee with the following options: (i) the mortgagee may accept the conditions as provided in paragraph (8) (A) and (B) of this subsection, or (ii) the mortgagee may convey the property to the Administrator and forfeit 5 percent of the amount of the total indebtedness as of the date of liquidation."
4. Amend 1816 (c) (9) by inserting after "In no event" a comma and the words "except as provided in paragraph (8) (C) of this subsection,".

These amendments would provide necessary relief where devastating deterioration of property values is wreaking havoc on veterans and lenders. On a case-by-case basis, the difference in appraised values at the time of loan origination and at the time of foreclosure represent the best available indicator of economic problems in specific areas. While still providing that the lender share the loss with the VA, this proposal would cap lenders' maximum no-bid exposure in those situations where vast declines in market values have occurred.

REMOVAL OF OCCUPANCY REQUIREMENTS

Section 8 of HR 2672 would amend specific sections of 38 USC to remove occupancy requirements in certain situations. MBA has no objection to any of the suggestions for occupancy requirements. MBA believes that restrictions on refinancings hurt veteran homeowners because they are precluded from taking advantage of lower interest rates.

A harsh occupancy standard for refinancing will not serve the best interests of the VA program, because such a policy increases the risk of default. Because the veteran's entitlement is a limited one, that is, the veteran can only use the guaranty amount up to the Congressionally specified limit, that should serve as the primary limiting factor in allocating a veteran's entitlement. And the veteran is in the best position to choose how that election should best be made, taking into account individual financing needs.

PROPERTY MANAGEMENT

Section 9 (b) of HR 2672 would assist veterans obtain training pursuant to the "Veterans' Job Training Act" by conveying VA-acquired property at a discount to certain persons who would use a job training program for veterans to rehabilitate such property. MBA believes this is an honorable and worthy goal. However, MBA is concerned about the solvency of the Fund where such properties are sold at up to 25 percent discounts and, if as a result of such sales, the need to seek appropriations arises.

ASSUMPTIONS OF LOANS

Section 11 of HR 2672 amends 38 USC 1817 which releases a veteran from liability on a guaranteed home loan when the loan has been assumed by a purchaser of the property securing the loan. MBA opposes this amendment because it creates an unnecessary and onerous mechanism for the release of veterans from liability for loans. Current law already provides for such release when the veteran notifies the VA that the property has been transferred. MBA believes that the most expeditious method of accomplishing the goal of this amendment would be to include provisions, as suggested in Section 11 (d) of the draft bill, in each contract for a guaranteed loan that would advise the veteran of the existing mechanism in 38 USC 1817 for securing release from liability. In addition, the VA should step up its education efforts to veterans about securing such releases.

The process created by the amendment is so cumbersome that it would hinder sales of homes by veterans to buyers who assume their loans.

On the other hand, if the intention is to prevent abuses of the home loan guaranty program, then new underwriting is desirable in some cases where loans are assumed. MBA recommends that underwriting of all purchasers assuming VA loans be mandatory for assumptions that occur in the first year of the mortgage. MBA believes that this action would address abuses that have been uncovered involving assumptions that occur shortly after loan closing. However, MBA does not believe that it is appropriate to require underwriting in all assumption transactions. We are unaware of any documented abuses that would justify the delay and expense associated with an underwriting review of all loans.

In cases where new underwriting on assumptions is required, MBA believes that lenders should be adequately compensated for their costs incurred in checking the creditworthiness of the purchaser.

MBA would be happy to work with the staff in drafting language to implement a requirement that new underwriting be done on all assumptions within one year after origination. MBA believes that current law should apply to all other assumptions.

Although not provided for in HR 2672, you have requested that we comment on the imposition of a 1 percent fee to be paid by individuals assuming VA loans. MBA has no objection to the payment by the buyer of the property securing the assumed loan of a 1 percent fee to be deposited with the Loan Guaranty Revolving Fund.

MORTGAGE PAYMENT ASSISTANCE

Section 12 of HR 2672 amends 38 USC by inserting a new section, 1816A, which would provide assistance for loans to refinance delinquent indebtedness in order to avoid foreclosure of VA loans. The provisions of the amendment would provide the desired relief in certain cases where loans are delinquent. Given the two time conditions, i.e., the loan must be six months delinquent and there must be a reasonable prospect that the veteran will be able to resume payments within six months, the maximum assistance of \$8,400 will have to be sufficient to cover a minimum of a year of obligations under the loan.

However, MBA is concerned about the length of time it would take to process applications for these loans. If the review and determination of eligibility are done quickly enough to help the veteran, then this amendment is a practical solution to some delinquency problems. Current VA understaffing does not indicate that such quick action will be available.

According to the General Accounting Office (GAO) testimony presented to this Subcommittee on May 13, 1987, the VA is currently not initiating contact with veterans who are delinquent on their loans because it does not have adequate staff to deal with the high number of delinquencies. Because the VA already lacks the resources to carry out existing financial counseling programs, it is not likely that it could take on this new program and ensure its expeditious implementation. It would take time to approve the application and then process the loan, including such steps as vouchering the payment to the lender and recording the lien. All the while, the clock would be ticking and the veteran's indebtedness would be increasing. MBA believes that, because of more than likely delays in the delinquent loan application process, the financial assistance provided will have to be sufficient to cover obligations for perhaps up to 15 months. In those cases where \$8,400 is adequate to do this, the program could provide valuable relief for all the parties concerned.

APPRAISALS

Section 13 of HR 2672 would amend 38 USC 1831 and add a new subsection (f) which would provide for the appraiser to forward the appraisal directly to certain lenders to determine the reasonable value of the property. MBA believes this amendment has merit. The lender would review the appraisal and determine the maximum mortgage for guaranty purposes. In light of the lender's ultimate financial responsibility under the VA no-bid process, MBA believes that the lender should be involved in determining its potential liability in the origination of VA loans. MBA specifically urges that if lender review of the appraisal indicates that the value placed on the property by the appraiser is too high, it would be appropriate for the lender to adjust downward the maximum amount that it lends to the veteran. Under this change, VA would still approve and select the appraiser to perform the appraisal.

PILOT PROGRAM FOR ARMs

In addition to our comments on HR 2672, you have asked us to consider a pilot program for adjustable rate mortgages (ARMs) in one VA regional office. MBA has consistently urged that the VA be authorized to include ARMs in the VA home loan guaranty program and welcomes the opportunity to make recommendations on implementing a pilot program.

MBA believes that ARMs should be available nationwide and not restricted to one regional office. It would be unfair to veterans in those parts of the country that do not have this authority who want ARMs to meet their financial needs. To this end, MBA recommends that the VA, for a pilot program, follow the Federal Housing Administration's (FHA) ARM program and provide for a limited number of ARMs across the country. The number of FHA-ARMs originated is currently limited to 10 percent of the previous fiscal year's aggregate FHA single-family originations. The percentage of FHA loans that were ARMs increased dramatically from 1985 (the first year FHA-ARMs were permitted) to 1986. (See Exhibit 3.) Legislation passed on March 3, 1987, by the Senate, S 825, the "Housing and Community Development Act of 1987" and on June 11, 1987, by the House of Representatives, HR 4, the "Housing, Community Development and Homelessness Prevention Act of 1987," would increase the authority for FHA-ARMs to 40 percent and 20 percent, respectively.

MBA believes that VA-ARMs should be authorized in a manner that would allow the Administrator to conform VA-ARM interest rate adjustments to the FHA-ARM program. Currently, FHA is authorized to insure loans with adjustment caps of 1 percent annually and 5 percent over the life of the loan. Because FHA and VA mortgages can be placed in the same pool when they meet GNMA's pooling requirements, standardization of both VA- and FHA-ARMs would facilitate greater volume and liquidity in the secondary market.

Whatever may have been the case previously, ARMs are no longer an untested and unknown quantity. Approximately 53 percent of new conventional mortgages originated in the last quarter of 1983 were ARMs. The percentage continued to rise to 62 percent of loans closed in 1984 and dropped back to 50 percent in 1985. (Federal Home Loan Bank Board, "Conventional Home Mortgage Rates," February 1986.) Although substantially lower interest rates restored borrower ability to select fixed rate mortgages in 1985 and 1986, ARMs continue to be a significant borrower option in the conventional and FHA markets. The recent volatility of interest rates has caused increased demand for ARMs, which once again demonstrates borrower preference for these mortgages when interest rates rise. In 1986, 30 percent of loans closed were ARMs. Veteran borrowers should also enjoy the option.

MBA would like to make one final comment on the VA home loan guaranty program. It is common knowledge that the VA is understaffed and has difficulty performing its current functions. HR 2672 places many additional responsibilities on the staff, which it may not be able to carry out due to inadequate staff. When considering these provisions, the potential need for appropriations for increased staff should be kept in mind.

MBA appreciates the opportunity to testify before this Subcommittee and would be happy to answer or provide additional information, as necessary, for inclusion in the record.

EXHIBIT 1

VA HOME LOAN GUARANTY PROGRAM ACTIVITY
PRIMARY HOME LOANS CLOSEDTotal ^{1/}

	Number	Loan Amount (\$Mil)	Average Loan Amount	Average Purchase Price	Avg. Loan to Value Ratio
1977	371,610	13,260	\$35,683	\$36,982	96.5
1978	352,797	13,959	\$39,567	\$41,079	96.3
1979	345,708	15,991	\$46,256	\$48,555	95.3
1980	255,631	13,257	\$51,860	\$55,092	94.1
1981	136,027	7,543	\$55,452	\$58,833	94.3
1982	87,027	5,053	\$58,062	\$63,112	92.0
1983	227,155	14,092	\$62,037	\$66,723	93.0
1984	181,771	11,633	\$63,998	\$67,584	94.7
1985	172,773	11,579	\$67,016	\$70,243	95.4
1986	207,651	14,510	\$69,875	\$72,905	95.8

^{1/}Loans for refinancing not included.

100% Loans

	Number	Percent of Total Number	Loan- Amount (\$Mil)	Average Loan Amount
1977	259,509	69.83	8,817	\$33,975
1978	244,458	69.29	9,091	\$37,188
1979	234,810	67.92	10,260	\$43,695
1980	169,839	66.44	8,195	\$48,254
1981	89,758	65.99	4,569	\$50,901
1982	50,285	57.78	2,629	\$52,284
1983	137,315	60.45	7,868	\$57,299
1984	118,218	65.04	7,042	\$59,564
1985	123,101	71.25	7,846	\$63,736
1986	153,232	73.79	10,129	\$66,104

Source: Program Management Service, Loan Guaranty Department of the Veterans Administration.

Prepared by Mortgage Bankers Association of America, Economics Department, June 1987.

EXHIBIT 2

ADJUSTMENT OF MAXIMUM GUARANTY

	Median Sales Prices			
	Existing Homes		New Homes ^{1/}	
	Price	% Change From 1974	Price	% Change From 1974
1974	\$32,000	NA	\$35,900	NA
1975	\$35,300	10.3	\$39,300	9.5
1976	\$38,100	19.1	\$44,200	23.1
1977	\$42,900	34.1	\$48,800	35.9
1978	\$48,700	52.2	\$55,700	55.2
1979	\$55,700	74.1	\$62,900	75.2
1980	\$62,200	94.4	\$64,600	79.9
1981	\$66,400	107.5	\$68,900	91.9
1982	\$67,800	111.9	\$69,300	93.0
1983	\$70,300	119.7	\$73,300	109.7
1984	\$72,400	126.3	\$79,900	122.6
1985	\$75,500	135.9	\$84,300	134.8
1986	\$80,300	150.5	\$92,000	156.3

	Price Adjusted to Actual Guaranty			
	For Existing Homes	For New ^{1/} Homes	For Existing Homes	For New ^{1/} Homes
	Price	% Change From 1974	Price	% Change From 1974
1974	\$17,500	NA	\$17,500	NA
1975	\$19,305	10.3	\$19,265	9.5
1976	\$20,836	19.1	\$20,942	23.1
1977	\$23,461	34.1	\$23,788	35.9
1978	\$26,633	52.2	\$27,152	55.2
1979	\$30,461	74.1	\$30,662	75.2
1980	\$34,016	94.4	\$34,490	79.9
1981	\$36,313	107.5	\$36,586	91.9
1982	\$37,078	111.9	\$37,781	93.0
1983	\$38,445	119.7	\$38,706	109.7
1984	\$39,594	126.3	\$39,948	122.6
1985	\$41,289	135.9	\$41,093	134.8
1986	\$43,914	150.5	\$44,847	156.3

	Ratio: Price Adjusted to Actual Guaranty			
	For Existing Homes	For New ^{1/} Homes	For Existing Homes	For New ^{1/} Homes
	Ratio	Ratio	Ratio	Ratio
1974	1.00	1.00	1.00	1.00
1975	1.10	1.10	1.10	1.10
1976	1.23	1.23	1.23	1.23
1977	1.34	1.34	1.34	1.34
1978	1.52	1.52	1.52	1.52
1979	1.74	1.74	1.74	1.74
1980	1.99	1.99	1.99	1.99
1981	2.22	2.22	2.22	2.22
1982	2.32	2.32	2.32	2.32
1983	2.40	2.40	2.40	2.40
1984	2.43	2.43	2.43	2.43
1985	2.50	2.50	2.50	2.50
1986	2.60	2.60	2.60	2.60

Sources: Bureau of the Census; National Association of Realtors.

^{1/}New home sales prices and activity for 1986 estimated based on data through November 1986.^{2/}Weighted average (by sales activity) of median sales prices of new and existing single-family homes sold.

Prepared by the Mortgage Bankers Association of America, Economics Department, June 1987.

EXHIBIT 3

ARMs AS A PROPORTION OF LOANS CLOSED

	<u>Conventional</u> ^{1/}	<u>FHA</u> ^{2/}
1986	29.9%	0.8%
1985	50.5%	0.1%
1984	62.0%	—
1983	40.3%	—
1982	40.5%	—

^{1/} Source: Federal Home Loan Bank Board

^{2/} Source: Federal Housing Administration — Fiscal Year Basis

Prepared by the Mortgage Bankers Association of America, Economics Department, June 1987.

Statement
of the
NATIONAL
ASSOCIATION OF
HOME
BUILDERS
before the

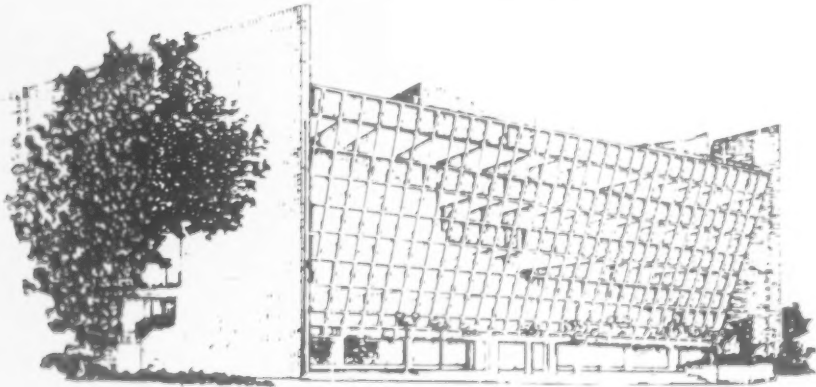
Committee U.S. House of Representatives
Committee on Veterans Affairs
Subcommittee on Housing and Memorial Affairs

Subject The Veterans' Housing
Rehabilitation and Program Improvement Act
of 1987 (H.R.2672)

Witness David K. Hill
Rolling Meadows, Illinois

Date June 23, 1987

Place Room 334, Cannon House Office
Building



National Housing Center
15th and M Streets, NW
Washington, D.C. 20005
(202) 822-0470

STATEMENT OF
THE NATIONAL ASSOCIATION OF HOME BUILDERS
before the
COMMITTEE ON VETERANS AFFAIRS
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
on
THE VETERANS' HOUSING REHABILITATION AND PROGRAM IMPROVEMENT
ACT OF 1987 (H.R.2672)
June 23, 1987

Madam Chairwoman and Members of the Subcommittee:

My name is David K. Hill and I am representing the 147,000 member National Association of Home Builders, a trade association of the nation's homebuilding industry. I am a builder from Rolling Meadows, Illinois and am a member of our Mortgage Finance Committee. Almost 20 percent of our builder members are involved in building VA financed housing which was used by about 15 percent of new family homebuyers in 1986.

Madam Chairwoman, I am pleased to present our views on H.R.2672, The Veterans' Housing Rehabilitation and Program Improvement Act of 1987. We are also supportive of a demonstration program for an adjustable rate mortgage (ARM) for veteran homebuyers.

ADJUSTABLE RATE MORTGAGES/RISING INTEREST RATES

When we testified before the Subcommittee in April, we supported a new initiative under the VA Home Loan Guaranty program for an adjustable rate mortgage (ARM) for veteran homebuyers. We are pleased that the Subcommittee is considering a pilot program for ARM's. We urge that the demonstration be implemented in more than one regional office and that it include a demonstration in a high cost area. The Subcommittee might also consider a nationwide demonstration similar to the Federal Housing Administration (FHA) program, which is currently set at a level equal to 10 percent of the previous year's mortgage loan activity.

ARM Features

Provision for an adjustable rate mortgage would be helpful to better serve the veteran homebuyer particularly in a period of rising interest rates as we are currently experiencing. More volatile interest rate fluctuations reduce housing activity, and adjustable rate mortgages provide a safety valve in this area. NAHB policy supports an adjustable rate mortgage (ARM) for the VA which allows the lender to make periodic adjustments in the effective rate of interest on a VA home loan based on a national rate index. Our policy calls for an ARM identical to FHA's adjustable rate loan which allows interest rates to escalate no more than 1 percent per year with a cap of 5 percent over the life of the loan. This has proven to be a very responsible, pro-consumer mortgage instrument, and an important option for the homebuyer. Interest rates for an adjustable rate mortgage are

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typically 1 percent to 2 percent lower than a fixed rate loan. This results in a savings of as much as \$100 in monthly mortgage payments on a \$70,000 loan.

The VA interest rate has increased from 8.5 percent to 10 percent since the beginning of the year. During high interest rate environments, ARMs become an even more attractive option because they carry lower initial rates. As rates fall, ARMs allow the veteran borrower to enjoy rate decreases without the expense of refinancing.

ARM Protections

Concern has been shown that veteran homebuyers are at the lower end of the affordability market and could be negatively impacted by rising ARMs. With prudent credit underwriting and the 1 percent and 5 percent interest caps, homebuyers should generally not suffer from "payment shock" as upward interest adjustments occur.

Moreover, if the ARM is patterned after the FHA ARM there would be no negative amortization, a significant protection for the consumer. When ARMs were first introduced, there were a number of variations that allowed for negative amortization -- that is, payments did not cover all of the interest due. Unpaid interest was added to the loan balances and borrowers could end up owing more than the home was worth. This type of loan suffered a very high foreclosure rate and was quickly abandoned.

Another significant protection for the consumer is the requirement in the FHA ARM legislation which mandates a written

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explanation of the features of the ARM. This includes a hypothetical payment schedule that displays the maximum potential increases in monthly payments over the first five years of the mortgage term.

We hope that you will support an ARM for the VA homebuyer as the Veterans Administration is the only market participant that does not offer such a program.

VETERANS' HOUSING REHABILITATION AND PROGRAM IMPROVEMENT

ACT OF 1987 (H.R. 2672)

30 Percent Loan Guaranty Amount

Nadam Chairwoman, H.R. 2672 would substitute a 30 percent loan guaranty for existing law which provides a guaranty of \$27,500 or 60 percent of loan amount whichever is less.

We strongly believe that the loan guaranty maximum be raised since home prices have substantially increased. Comparing the average 1986 new home sales price of \$111,800 to the 1980 figure of \$76,600, the last time the loan guaranty was raised, new home prices have increased by 46 percent. NAHB supports an increase in the loan guaranty amount to \$36,000 as is included in S.9.

While the 30 percent loan guaranty amply provides for single-family loans made at the higher end of the market, a uniform guaranty dramatically decreases the coverage for loans at the lower end of the home price market where the program is needed most.

This is indicated by the attached table which compares the amount of guaranty under the uniform 30 percent amount with existing law and S.9 (Attachment A). Both current law and the

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Senate bill allow a guaranty of \$27,500 or \$36,000 respectively or 60 percent of the loan amount, whichever is less.

As you can see by the table, on a \$135,000 loan the guaranty amount under H.R. 2672 is \$40,500 compared to \$27,500 under existing law and \$36,000 under S. 9. This fact is true down to the \$90,000 loan level where the guaranty drops to only \$27,000 and continues to decrease thereafter. At the other end of the spectrum, a veteran taking out a loan at \$30,000 receives only one half the loan guaranty of current law and S. 9. On a \$70,000 loan, the average loan amount for VA housing in 1986, the guaranty under the 30 percent amount drops to \$21,000.

Historically, the ratio between the loan guaranty amount and the average loan amount has been much higher than it is today. For example, in 1981, the guaranty on the average VA loan amount of \$55,000, amounted to a 50 percent loan protection versus a 39 percent guaranty on the average 1986 loan amount of \$70,000. If the loan increases without a subsequent increase in the loan guaranty, the ratio continues to decline as is shown in the attached table (Attachment B). Veterans in high cost areas would be even more adversely affected. In all cases from 1976 to 1986 the guaranty as a percent of the average loan amount was higher than 30 percent.

Because of the negative impact on the average veteran homebuyer of applying a uniform 30 percent loan amount, we would oppose this provision. We would suggest that you consider a loan guaranty amount of \$27,500 or 30 percent of the loan amount,

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whichever is greater. Under this scenario, an increase in the loan guaranty amount of \$27,500 would not occur until a loan amount of more than \$91,700. This proposal would assist those veterans attempting to buy homes in high cost areas while providing needed coverage to veterans at the lower end of the scale.

One Percent Fee

We are pleased that the House passed H.Con.Res.79 which prohibits the current 1 percent fee from being increased. Congress has acted wisely over the past three years in rejecting the Administration's proposed fee increases, which would have a detrimental effect on veterans obtaining home loans.

The current 1 percent funding fee, which was extended by Congress in 1984 for three years, will expire on September 30, 1987. H.R.2672 would extend the fee for two additional years and suspends it totally if there is enough money in the revolving fund to pay claims for one year. Even with the existing 1 percent loan fee, the Loan Guaranty Revolving Fund will need to be supplemented by an appropriation from Congress. While we support a congressional appropriation to maintain solvency in the program, we recognize the critical need to maintain current revenue. Therefore, we recommend that the Subcommittee retain the current 1 percent fee for one year to help sustain the program. We urge Congress, however, to give serious consideration to the issue of whether the program is truly an entitlement for which user fees may be inappropriate.

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Direct Endorsement Of VA Appraisals

We support the provision in H.R.2672 which gives authority under the VA Home Loan Guaranty program to the lender to determine the reasonable value of homes bought by veterans. This would make the VA automatic lender program similar to the Department of Housing and Urban Development's direct endorsement program by allowing appraisals approved by VA certified appraisers to be sent directly to the approved lenders rather than the VA Administrator. Approved lenders would then determine the market value of the home, close the loan on the basis of their own independent review and then directly notify the veteran.

Direct endorsement of appraisals will decrease processing time in approving loans and allow the VA to operate more effectively under staffing constraints. It would also bring the program in conformity with HUD's direct endorsement program, which has worked successfully since its inception in 1983. Additionally, market conditions have delayed appraisals and have caused many veterans' contracts to expire. This has led to increases in the cost of the loan. Most appraisals are left unchanged by the VA so there is no reason not to send them directly to the lender for certification.

Loan Assets Sales

We are concerned with the Administration's policy decision to sell the loan assets of the VA and other federal agencies. However, the provision in H.R.2672 which requires loan portfolio sales for the VA to at least 100 percent of par may be too stringent. Our concern has to do with the overall impact of the

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proposal upon the long term economic health of the various programs. In deciding which assets to sell and at what discount, careful consideration must be given to assessing the true value of the income stream of the asset being sold. The Administration's FY'88 budget proposes to sell \$900 million of the Veterans Administration's \$1.1 billion loan portfolio over the next three years without recourse, at a 30 percent discount. It is estimated that this will result in a loss of \$100 million in interest income. The loss of this income stream from the properties being sold must be balanced against projected short term budgetary gains in determining actual "value" of the asset sale and long term implications and loss to the program.

Transferred Veterans Refinancing/Assumed Loans

Regarding the provision in H.R.2672 on refinancing of loans, we recommend that military personnel who have been transferred be allowed to refinance their loans before sale. Current law states that veterans must be owner occupants to refinance their homes --a provision which excludes transferred veterans attempting to sell their homes. A new buyer does not want to assume a 12 percent to 14 percent interest rate loan which was prevalent under the program in the early 1980's, when he can obtain a much lower interest rate elsewhere.

Allowing a veteran to refinance the loan at the current 10 percent interest rate will be beneficial both to the veteran and the homebuyer. It will allow veterans to sell homes which have been sitting on the market, thereby preventing default and

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foreclosure. The new buyer will save both in the amount of upfront closing costs and in shorter processing time.

OTHER PROGRAM CONCERNS

Madam Chairwoman, we also have concerns about other program issues and proposals of interest to veterans. These include federal credit reform and the VA loan exemption from the sequestration provision of the Deficit Reduction Act.

Federal Credit Reform

The National Association of Home Builders strongly opposes credit reform measures which attempt to restrict federal mortgage credit activities of the Veterans Administration and other government housing programs (S.745 and H.R.1754). This credit reform legislation, supported by the Administration, would change the way federal credit programs are treated in the budget and would require federal agencies to seek direct appropriations from Congress. Since the VA home loan program is a guaranty program, this action is yet another attempt to restrict federal housing credit and ignores the entitlement nature of the program.

Loan Ceiling Exemption

For the first time in the history of the program, a ceiling was placed on the overall volume of loans that could be made by the Veterans Administration under the sequestration provisions of the Deficit Reduction Act. In 1986, Congress had to increase the loan guaranty ceiling twice because of this legislation, causing severe disruptions in the program. This came at a time when interest rates had substantially declined, allowing thousands of veterans to

- 10 -

purchase homes for the first time. Refinancings were also at an all time high.

The loan guaranty program is an entitlement program and should not be impacted by the Gramm/Rudman/Hollings deficit reduction provisions. In addition, VA home loan guarantees require no direct federal outlays unless there is an actual default of the loan. A reduction in the number of loans will not result in deficit savings. We hope that you will include this provision during consideration of H.R.2672.

CONCLUSION

In closing, I would like to emphasize our support for an increase in the loan guaranty maximum to \$36,000, exemption from mortgage ceilings, provision for an adjustable rate mortgage and direct endorsement of VA appraisals, so that veterans will be better assisted in obtaining home loans. It is essential that the VA remain true to its basic responsibility of providing credit assistance to veterans for the purchase of housing and to make maximum use of the loan guaranty program. The loan guaranty-entitlement should not be denied our veterans and service personnel who have so ably served our country.

I would be pleased to respond to any questions you might have.

ATTACHMENT A

VA HOME LOAN GUARANTY PROGRAM

COMPARISON OF A VA 30% LOAN GUARANTY AMOUNT

LOAN AMOUNT	30% LOAN GUARANTY AMOUNT (House Bill H.R. 2672)	CURRENT LOAN GUARANTY AMOUNT (\$27,500 or 60% of loan -- whichever is less)	5.9% LOAN GUARANTY AMOUNT (\$36,000 or 60% of loan -- whichever is less)
\$ 135,000	\$ 40,500	\$ 27,500	\$ 36,000
\$ 125,000	\$ 37,500	\$ 27,500	\$ 36,000
\$ 110,000	\$ 33,000	\$ 27,500	\$ 36,000
\$ 100,000	\$ 30,000	\$ 27,500	\$ 36,000
\$ 90,000	\$ 27,000	\$ 27,500	\$ 36,000
\$ 80,000	\$ 24,000	\$ 27,500	\$ 36,000
\$ 70,000	\$ 21,000	\$ 27,500	\$ 36,000
\$ 60,000	\$ 18,000	\$ 27,500	\$ 36,000
\$ 50,000	\$ 15,000	\$ 27,500	\$ 30,000
\$ 40,000	\$ 12,000	\$ 24,000	\$ 24,000
\$ 30,000	\$ 9,000	\$ 18,000	\$ 18,000

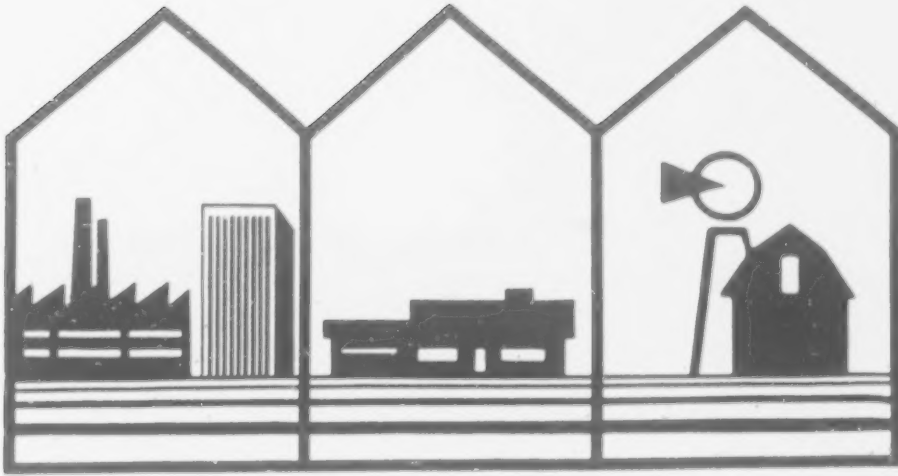
Source: Compiled by the National Association of Home Builders.

Percent Coverage for Average VA Loan Amount
1976-1986

Year	Guaranty Amount	Average Loan Amount	Percent Coverage
1976	\$17,500	\$31,620	55%
1977	17,500	35,882	49%
1978	25,000	39,565	60% ¹
1979	25,000	46,254	54%
1980	27,500	51,860	53%
1981	27,500	55,453	50%
1982	27,500	58,062	47%
1983	27,500	62,038	44%
1984	27,500	63,990	43%
1985	27,500	67,016	41%
1986	27,500	70,013	39%

¹\$25,000 is 63% of average loan amount, but coverage is capped at 60%.

SOURCE: Veterans Administration, compiled by the National Association of Home Builders



Statement of the
NATIONAL ASSOCIATION OF REALTORS®
THE WORLD'S LARGEST TRADE ASSOCIATION

TO: SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS OF THE
HOUSE VETERANS' AFFAIRS COMMITTEE

ON: VA HOME LOAN GUARANTY PROGRAM

BY: NORMAN S. KALLO, CHAIR, GOVERNMENT MORTGAGE PROGRAMS
SUBCOMMITTEE, REAL ESTATE FINANCE COMMITTEE

DATE: JUNE 23, 1987

STATEMENT OF THE
NATIONAL ASSOCIATION OF REALTORS®
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
HOUSE COMMITTEE ON VETERANS' AFFAIRS
BY
NORMAN N. KAILO
CHAIR, GOVERNMENT MORTGAGE PROGRAMS SUBCOMMITTEE
OF THE
REAL ESTATE FINANCE COMMITTEE
JUNE 23, 1987

INTRODUCTION

Madame Chairwoman, my name is Norman N. Kailo. I am a REALTOR® from Wayne, New Jersey and the 1987 Chair of the Government Mortgage Programs Subcommittee of the Real Estate Finance Committee for the NATIONAL ASSOCIATION OF REALTORS®. On behalf of the more than 730,000 members of our ASSOCIATION, I want to thank you and the members of your Subcommittee for a second opportunity to present our views on veterans' housing issues, and specifically on provisions of your H.R. 2672 bill the "Veterans' Housing Rehabilitation and Program Improvement Act of 1987."

We are pleased to provide the following comments:

SALE OF VENDEE LOANS: Section 2 of the H.R. 2672 prohibits the VA from selling vendee loans, unless they are sold at 100 percent of par or above.

As we have previously testified, we question the cost-effectiveness of the Administration's proposal to require VA to sell its vendee loans on a non-recourse basis. The sale of loans on a non-recourse basis clearly affects the marketability of these assets, as demonstrated by the Administration's recent non-recourse sale which was cancelled because such low bids were offered.

If VA is required to continue selling its loan portfolio, we believe that it should be provided with the flexibility to sell its loans, with recourse, at the best price possible.

VA LOAN ORIGINATION FEE: Section 3 extends the current one percent VA origination fee for a three-year period.

As you know, the NATIONAL ASSOCIATION OF REALTORS® has consistently opposed the Administration's proposals to increase the VA origination fee from its current one percent level. Therefore, we support this provision which would ensure continued maintenance of the one percent fee for three-years. We believe that such an extension will provide a necessary certainty to the program and will make the VA less subject to political assault by those who continue to seek to raise the origination fee.

VA LOAN GUARANTY MAXIMUM: This legislation also removes the existing loan guaranty maximum of \$27,500 and provides for a uniform guaranty limit of 30 percent of the loan amount.

Madame Chairwoman, as we have previously testified, there is a great need to increase the current VA loan guaranty maximum to better reflect the

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increase which has occurred in home prices since 1980, the last time the maximum was raised. The current mechanism has operated efficiently in the market, and the NATIONAL ASSOCIATION OF REALTORS® prefers the approach which is included in the pending Senate legislation, S.9., which would increase the loan guaranty maximum to \$36,000.

While we realize that this uniform mechanism will benefit VA borrowers in so-called "high cost areas," we are concerned that veterans in the lower market areas, those for whom the home loan program was intended, will be disadvantaged. By effectively reducing the loan guaranty for veterans in these regions, lenders may be less willing to provide such loans.

ASSISTANCE IN CASES OF DEFAULT: Section 5 requires the VA to take steps to notify and counsel defaulting veterans about alternatives to foreclosure.

Madame Chairwoman, we strongly agree that counseling of veterans who are facing delinquency is an important step toward preventing foreclosures, and we support these efforts. However, we are concerned that this worthy goal can not be accomplished in the current environment of inadequate VA staff and resources. If the VA is to be responsible for enhanced servicing, in an effective manner, additional staff and other resources must be made available to all regional offices on a consistent basis.

OCCUPANCY REQUIREMENTS: H.R. 2672 also redefines occupancy requirements for VA refinancing and loan origination purposes.

Madame Chairwoman, as we previously testified, the NATIONAL ASSOCIATION OF REALTORS® supports legislation which would permit active-duty military personnel, who have been transferred, to refinance their homes through VA. This change is a reasonable solution to this problem, and will allow many active-duty personnel to benefit from reduced mortgage payments.

We understand that this clarification has also been extended to active-duty military personnel who are seeking a VA loan to purchase a home, so long as his/her spouse and dependent children reside in the home to be guaranteed through VA. We believe that this provision will benefit deserving veterans, and we also support its adoption.

HOMELESS PROGRAM: Section 9 (a) encourages organizations and political subdivisions to acquire difficult-to-sell VA foreclosed properties to be used to provide housing for homeless veterans.

As we previously testified, the NATIONAL ASSOCIATION OF REALTORS® supports efforts to provide shelter for homeless veterans. This bill authorizes the VA Administrator to sell these properties "for such consideration as the Administrator determines is in the best interests of homeless veterans and the federal government." Madame Chairwoman, these two goals appear to be inconsistent, and as we indicated in April, we are concerned about the impact of these sales on the financial stability of the Loan Guaranty Revolving Fund. Once again, we strongly recommend that the sale of VA's inventoried homes to appropriate sponsor organizations be made on a fair-market value basis.

JOB TRAINING PROGRAM: Section 9 (b) authorizes the sale, at up to 25 percent discount, of VA foreclosed properties to organizations who agree to use veterans through the Job Training Act to rehabilitate the homes. In addition, this provision grants veterans priority in the purchase of these rehabilitated homes and reduces the liability of former veteran homeowners of these discounted properties.

We certainly agree that providing jobs for deserving veterans, through housing rehabilitation, is a worthy goal. However, because inventoried properties will be sold at considerable discount, we are concerned about the impact of this proposed program on the solvency of the Loan Guaranty Revolving Fund.

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REHABILITATION OF INVENTORIED PROPERTIES: Section 10 authorizes the provision of additional funds on vendor loans to rehabilitate VA acquired properties to a habitable state.

Madame Chairwoman, we are fully aware of the pressing need to market and dispose of as many inventoried properties as possible, and offering rehabilitation monies is certainly a viable incentive toward increasing property sales. We do have some concerns about the administrative burdens which a "staged-payment" program such as this one may have on the current limited VA staff resources. Our members have shared with us difficulties they have encountered in working with similar programs which rely on the timely payment of rehabilitation vendors. While we view this proposal as a creative approach to dealing with the increasing inventory problem, we urge the Subcommittee to further study the effects of its implementation on the existing understaffed VA bureaucracy.

ASSUMPTIONS: Section 11 requires new credit underwriting on VA loans which are assumed when a veteran sells his/her home with an automatic release of liability to the selling veteran.

Madame Chairwoman, as you will recall, the NATIONAL ASSOCIATION OF REALTORS® continues to oppose the adoption of this provision. Easy assumability has been a feature of FHA-insured and VA-guaranteed loans since the inception of both programs. It is widely acknowledged that this feature has been instrumental in increasing the marketability of home with FHA-insured or VA-guaranteed mortgages. In today's market where most fixed-rate conventional mortgages contain "due-on-sale" clauses, the FHA and VA programs are one of the last bastions of fixed payment mortgage instruments which allow assumability.

Especially during periods of rising interest rates, the free assumability of FHA and VA mortgages has often substantially enhanced the value of a home. The buyer benefits because he or she can assume a loan below the prevailing market rate. This assumability also translates into a benefit for the seller by increasing the demand and thus, value for his/her home.

We are not aware of any data which supports the claim that a majority of VA defaults have arisen from assumptions and we can see no reason to change the VA assumability feature which has worked successfully over the past 43 years.

We are concerned that requiring new credit underwriting on VA loans which are assumed will be detrimental to both sellers and potential buyers of homes secured with VA loans.

Prospective veteran sellers may find it more difficult to sell their homes because potential buyers may be unwilling to undergo an expensive, burdensome, and time-consuming underwriting procedures. This is particularly so if potential assumptors are required to pay an additional one-half of one percent origination fee, along with any other fees which lenders may charge for processing an assumption. The NATIONAL ASSOCIATION OF REALTORS® opposes the imposition of this additional fee because we believe it is unnecessary and represents yet another tax on homebuyers.

This change in the assumability of VA mortgages could also have a long-term, negative impact on the VA-LGRP. By requiring new underwriting, it is likely that potential homebuyers who, at one time, would be willing to take over the monthly mortgage payments from a seller who was experiencing serious financial difficulty, will no longer be amenable to assuming the VA mortgage because of the additional cost and the time imposed by the new requirement. Therefore, financially-strapped homeowners with a VA-guaranteed mortgage will have few other alternatives but to default on their VA mortgage. When this occurs, VA must pay the claim and take title to the foreclosed property. VA is then responsible for both the management and disposition of the property.

TEMPORARY FORECLOSURE RELIEF: Subject to specific criteria and requirements, section 12 authorizes temporary mortgage foreclosure relief (up to \$8400) to veterans who are facing default and foreclosure through no fault of their own.

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Madame Chairwoman, we believe that this provision represents a positive step toward preventing ultimate foreclosure by delinquent veterans who are suffering financial hardship through no fault of their own. However, in order to fully evaluate the effectiveness of this proposal, we would be interested in knowing its projected budgetary impact.

VA APPRAISALS: Section 13 outlines additional qualifications for VA fee-appraisers and also authorizes a direct appraisal system for VA-approved lenders.

Last year, Public Law 99-576 granted new authority to the VA Administrator to prescribe qualifications for VA fee appraisers. Section 13 of the bill would further detail a process of VA certification of qualified appraisers. The NATIONAL ASSOCIATION OF REALTORS® along with our affiliate, the American Institute of Real Estate Appraisers, is extremely concerned with the problems generated by use of unqualified appraisers. We have been actively working toward the development of a procedure for promulgation and use of uniform appraisal standards. We are further supporting states which seek to establish certification and/or licensing of appraisers. At our recent Mid-Year Meetings last month, the Association's Board of Directors, however, voted to oppose federal legislation calling for federal certification of appraisers.

It is our position that the existing authority of the VA Administrator is sufficient for requiring use of state licensed or certified appraisers who use nationally accepted, uniform standards of practice. To further require the VA Administrator to establish certification requirements will cause confusion and duplication with the state certification program. More importantly, increased VA scrutiny over the appraiser will undermine Section 13(b)(1)(C), which wisely allows a transfer to the lender of the VA Administrator's responsibility over the appraisal. Review of the appraisal product and discipline of the appraiser will be more expeditiously and properly handled by the lender.

Madame Chairwoman, as we previously testified, the NATIONAL ASSOCIATION OF REALTORS® strongly supports the establishment of an appraisal system whereby appraisal reports completed by VA-designated fee appraisers would be received and reviewed by approved "automatic" lenders without VA staff involvement. We continue to believe that this change will provide more timely service to homebuying veterans, and will allow VA field offices to operate more effectively under its current staffing constraints.

DEED-IN-LIEU OF FORECLOSURE: Section 14 of the draft bill provides for the exclusion of foreclosure costs from a veterans' liability if the veteran offers to convey the property to VA via the deed-in-lieu of foreclosure procedures.

Madame Chairwoman, we believe that allowing veterans to take advantage of the deed-in-lieu of foreclosure process will permit VA to gain clear title of foreclosed properties in a quicker manner, thus reducing its holding and default costs. We support adoption of this provision, and also suggest that in its counseling efforts, the VA should be encouraged to make delinquent veterans aware of this alternative.

OTHER PROVISIONS

Madame Chairwoman, we note the absence of other provisions, which we hope you and your subcommittee members will consider adding to the H.R. 2672.

They are as follows:

- Exempt VA Home Loan Guaranty Program from Sequestration: Section 8 of S.9, the "Service-Disabled Veterans Benefits Improvement Act of 1987," currently pending in the Senate, removes the VA Home Loan Guaranty Program from the purview of the Gramm-Rudman-Hollings deficit reduction law, and thus, exempts the program from sequestration.

The ASSOCIATION believes that this particular program should be granted a permanent exemption from the G-R-H's threat of sequestration for the following reasons: First, a fee is charged when a VA guarantee is issued to a veteran. This fee is channeled into the VA Loan Guaranty Revolving Fund (LGRF).

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Consequently, a sequestration cap, which would reduce the total amount of guaranties and thus, the amount of fees collected in a given fiscal year, would actually increase the deficit.

Second, an exemption would avoid the need for Congressional action to raise a sequestration cap in a given fiscal year in order to prevent the threatened interruption in the program's service to veterans. In 1986, the Congress responded to such threats by raising the sequestration cap on this program. The ASSOCIATION has every confidence that Congress would respond in a similar manner to any future threat of interruption in the program. However, an exemption would provide needed security, stability, and predictability to the program.

Finally, the ASSOCIATION agrees that if a sequestration cap were allowed to be implemented, it would be inequitable in its application. Cutting off the issuance of commitments when a sequestration cap was reached would deny a guaranty to a veteran whose loan application was approved after the cap was reached. This could risk the veteran's purchase agreement falling through while waiting until the start of a new fiscal year and a new sequestration cap.

The NATIONAL ASSOCIATION OF REALTORS® has always considered the VA Home Loan Guaranty Program a veteran entitlement which has been secured through service to one's country. In order to provide its most optimal usage, this program should be allowed to operate in an unfettered manner, without any unnecessary interruptions.

- Deregulate the VA Administered Interest Rate: As you know, section 2 of S.920, the "Veterans' Housing Amendments Act of 1987," currently pending in the Senate, repeals the authority of the Administrator to establish the maximum rate which veterans may pay on VA-guaranteed home loans. This statutory change would allow veterans, lenders, and sellers to negotiate the interest rate and points on VA-guaranteed loans.

In 1983, the FVA administered-rate was deregulated to allow for a rate as agreed upon by the borrower and the lender. The NATIONAL ASSOCIATION OF REALTORS® supported that modification, and we similarly support legislation which would substitute the market forces of supply and demand, for the artificial restriction on interest rates on VA-guaranteed loans.

Madame Chairwoman, the rapid increase in mortgage rates which occurred in March and April of this year is a clear example of the need to allow competitive forces to determine the interest rate on VA loans.

Although VA attempts to establish a rate which reflects the current market, often-times the VA rate does not keep pace with market forces, particularly in situations where mortgage rates rise rapidly or where the market is subject to volatility.

Our members report that in March and April when the Mortgage Market reacted to changing economic forces, points on VA-guaranteed loans escalated to as high as 9.5 in some areas.

Since the veteran is not permitted to pay more than one point, sellers are required to absorb these additional costs. As a result, sellers either increase the selling price of the property or simply do not sell to potential buyers with VA financing. In either case, veterans are adversely affected. By freeing the administered rate, the terms of the mortgage transaction can be negotiated, thus filling the needs of all the parties involved.

CONCLUSION

Thank you, once again, Madame Chairwoman, for providing the NATIONAL ASSOCIATION OF REALTORS® with an opportunity to provide our comments and suggestions, on the Subcommittee's bill. The VA Home Loan Guaranty Program is an important government housing program, and we offer our continued assistance to you and your staff as you proceed to fashion a bill which meets the needs of veteran homebuyers.

I will be happy to answer your questions. Thank you.



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NATIONAL CAPITAL OFFICE



THE NON COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA

"STRENGTH IN UNITY"



Statement of

Richard W. Johnson, Jr.
Director of Legislative Affairs

before the

Subcommittee on Housing and Memorial Affairs
Committee on Veterans' Affairs
U.S. House of Representatives

on

H.R. 2672

June 23, 1987

Thank you for giving the Non Commissioned Officers Association of the USA (NCOA) this opportunity to provide additional testimony on the Veterans Administration Home Loan Guaranty Program. NCOA commends the committee on the legislation under consideration today. It is a well developed bill which will serve veterans. However, NCOA will share with the committee a few objections to the legislation. Additionally, NCOA is pleased to have the opportunity to comment on two issues not included in the bill concerning adjustable rate mortgages and user fees on assumed loans. We will address user fees on assumptions together with our comments on that portion of the bill.

Adjustable Rate Mortgages

NCOA is adamantly opposed to the use of adjustable rate mortgages (ARMs) in the VA loan guaranty program. However, as mortgage rates begin to rise it is appropriate for Congress to revisit this issue. ARMs are a device used by mortgage lenders and real estate agents to finance housing for marginally qualified buyers. Originally known as YUPPIE loans, they are ideally suited for the young upwardly mobile professional whose income can reasonably be expected to increase substantially during the first few years of home ownership. Yet, the sale of ARMS is not limited to people with such earning potential.

Instead, mortgage lenders use ARMs to provide financing for people at the borderline of qualification for home mortgages. For example, thirty year fixed rate financing on a \$70,000 home at the current interest rate of 10.5 percent would require monthly principle and interest payments of \$640.32. A thirty year ARM would have starting payments of \$538.24 at 8.5 percent. Obviously more buyers would qualify at the lower initial rate and few would be likely to have problems in making those payments. However, most ARMs adjust at the rate of 2 percent per year. Thus the \$538.24 starting payment becomes a \$640.32 payment after one year. The 2 percent rise in interest on the loan has actually increased the monthly mortgage payment by 19 percent! And, in a climate of rising interest rates the mortgage payment can rise even higher. Even if a 5 percent cap is placed on interest rate increases the payment could rise to \$801.79 in as little as three years resulting in a 48 percent increase in monthly mortgage payments. Clearly, such increases in mortgage payments jeopardize the veterans ability to pay.

While it is true that declining interest rates can decrease mortgage payment, a question remains about interim adjustments in the mortgage payment. Essentially people who accept adjustable rate financing are gambling their homes on the future of the Nation's economy. That is a risk the VA should not be asked to guarantee.

H.R. 2672

Section 1 of the bill entitles the legislation most appropriately as the "Veterans Housing Rehabilitation and Program Improvement Act of 1987". Indeed, this bill provides for substantial improvements in the program and it has NCOA's general support. However, as noted previously, the association does have a few comments to offer on some provisions of the bill. For organizational purposes, however, we will address our comments on the bill on a section by section bases.

Section 2 of the bill prohibits the sale of loans from the VA portfolio at less than par. NCOA strongly endorses this provision. In previous testimony before this committee NCOA has consistently supported the idea of restoring profitability in the Loan Guaranty Revolving Fund (LGRF) by rebuilding the VA loan portfolio and by prohibiting loan sales consummated only to achieve OMB directed deficit reduction objectives. This provision sets the VA on a course to accomplishing that objective.

Section 3 of the bill extends the 1 percent loan origination fee for three years but also provides for its suspension in any year that LGRF income is expected to be sufficient to pay anticipated claims. It also waives the loan origination fee for certain veterans who qualify for loans as the surviving spouse of a veteran who died from a service connected cause.

NCOA restates its opposition to any fees associated with home loans. We believe it is shameful to charge veterans fees ranging up to \$1,100 for a service provided by the VA at less than \$100. At least this provision of the bill outlines the circumstances under which the fee will be suspended. In itself that gives hope that the fee will be terminated and is accordingly supported by NCOA.

Section 4 of the bill would eliminate the ceiling on VA loan guarantees in favor of providing a guaranty on all loans at 30 percent of the value. This is a substantial departure from tradition in the program but it seems a reasonable and innovative idea. It would reduce VA liability on low value loans where most defaults occur. At the same time it would expand the range of housing available to financially qualified veterans.

The only veterans who would be hurt by this proposal are those who have an unused partial entitlement under current law. NCOA believes it would be relatively simple to protect these veterans by including a paragraph in the bill to preserve any partial entitlement that exists prior to enactment. Additionally, NCOA is uncertain about the adequacy of a 30 percent guaranty or how it will be received in the mortgage lending community. It seems, to NCOA, a fair liability for the VA to assume since most lenders require no insurance on loans that do not exceed 80 percent of the appraised value of the property. However Congress must be willing to act if too few lenders are willing to participate at this level.

Section 5 of the bill addresses a substantial deficiency in counselling program for veterans on default. NCOA strongly endorses this section. According to GAO testimony the only counselling given to veterans in jeopardy of default or foreclosure relates to trying to establish a repayment schedule suitable to the veteran and acceptable to the lender. Options of home sale, voluntary deed, refunding and refinancing are usually not discussed by the VA in their contact with veterans. These are all viable options which should be presented for consideration by the veteran. Concurrently, a veteran who selects wisely from among the options may benefit substantially from the reduced indebtedness arising from some options. Additionally, a small counselling guide of five or six pages discussing the financial options delineated above in real dollar terms might further aid in reducing veteran indebtedness and losses from the program.

One possible way of making better use of resources along this line is flex-time. Using flex-time for loan guaranty employees would accomplish several desirable objectives. First it would stagger access to equipment allowing a better use of these resources. Additionally, evening and weekend hours will probably contribute to greater success in contacting veterans to

resolve problems or defaults before foreclosure becomes necessary. NCOA endorses this concept, too, and suggests it be included in the bill.

Section 6 of the bill provides some equitable redistribution of liability under the "no-bid" formula used to determine whether the VA will acquire a property in default or pay the guaranty. The change will have little direct affect on veterans but could reduce the indebtedness of some veterans. Accordingly, it has NCOA's support.

NCOA also concurs in the establishment of a matching direct loan program created in Section 7 of the bill for American Samoa.

Section 8 of the bill redefines occupancy requirements for refinancing and loan origination purposes. This is an excellent idea and has NCOA's wholehearted support. The Association does suggest that the language amending Section 1819(e)(s) be relaxed with regard to "all of the dependent children". Frequently dependent children are not members of the household because they attend resident schools, may be in the custody of a former spouse, etc. It might be better to say "regular members of the household" instead. Whatever the outcome, NCOA applauds this effort.

Sections 9 and 10 of the bill create new provisions of law assisting homeless veterans, creating discounts on property sales to organizations who provide veterans job training and allow VA vendee loans for property rehabilitation. NCOA concurs in all these improvements and commends these efforts.

Section 11 requires new underwriting on assumptions and provides that the lender may call any note due and payable if the veteran allows an assumption without lender review. It also provides that a lender who fails to notify the VA of an assumption shall be liable for any VA losses sustained on a subsequent default. Concurrently, the veteran would be released from liability under the loan but his or her entitlement would not be reinstated. Additionally, NCOA has been asked to comment on requiring fees associated with such assumptions.

The changes proposed in this section seek to reduce veteran indebtedness by reducing underwriting losses on assumptions and by reducing vulnerability to equity skimming. Nevertheless, NCOA

feels compelled to note these changes are proposed without statistical justification.

It is statistically known that veterans are vulnerable to equity skimming. It is also known that almost 8 percent of guaranteed loans end in default. It is further known that 12 percent of loans in default are assumptions. However, the rate of default on assumed loans is not known. As a result the impact, necessity, and even desirability of the changes proposed by this section are somewhat suspect.

Certainly the proposed changes are well motivated. At the same time they are also quite cumbersome and significantly affect the veterans' ability to sell his or her home as rapidly as is possible under the current system.

New underwriting serves a desirable goal. However, the technical aspects of implementing such a proposal seem to place an unfair burden on the veteran. Even an innocent failure in compliance can result in economic disaster.

Requiring the payment of fees on assumptions only further devalues the benefit. As previously stated NCOA is totally opposed to fees in the program. That objection extends to fees on refinancing. Furthermore, NCOA believes any such fee would reduce the value of the home by an amount equal to the fee thus placing this burden on the veteran to pay.

NCOA concurs in the concept of finding a way to release all veterans from liability on the assumption of guaranteed loans. Ideally that release would not interfere with the quick sale now so beneficial to veterans. We are not convinced that new underwriting, at least as proposed in the H.R. 2672, is the method which should be adopted. As an alternative NCOA suggests that new underwriting should be limited to loans less than two years old. Most underwriting losses occur on newer loans where appreciation has not created any buffer against loss. Such a limit would test both the necessity and desirability of new underwriting in a group where it would have the greatest impact without adversely affecting the whole program. We also believe that because new underwriting diminishes the assumption benefit that reinstatement should accompany release from liability.

Section 12 introduces a new and innovative program for

making loans to veterans in jeopardy of foreclosure. NCOA believes many cases of default which now lead to foreclosure could be cured if funds were available to a veteran to bridge a gap in income. Although this proposal entails some unusual risks it is estimated that even a 40 percent success ratio would save the veteran and the VA money. It has NCOA's full support.

Finally, Sections 13 and 14 make some very necessary and desirable changes in appraisal processing and relieve veterans of indebtedness which accrues after they offer to surrender the deed to a property in foreclosure. NCOA supports these provisions of the bill.

Conclusion

In conclusion, NCOA is pleased to offer its general support for the legislation under consideration by the committee. With the exceptions noted in this statement NCOA is very pleased with the bill. Nevertheless, NCOA would recommend just one more addition to the proposal.

Most veterans' programs serve a clearly defined purpose. To remind those who propose to tamper with the program, Congress frequently codifies these purposes as guidelines against which such modifications might be measured. Unfortunately, no such guidelines have been established in law for the VA Loan Guaranty Program. Nevertheless the goals and purposes are clear. They are:

1. Assist the veteran in purchasing a home.
2. Assist the veteran in retaining the home.
3. Manage the program effectively to minimize its costs.

These purposes should be codified and each proposed modification to the program should be measured against these provisions.

Thank you.

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STATEMENT OF
STEPHEN L. EDMISTON
DEPUTY NATIONAL LEGISLATIVE DIRECTOR
DISABLED AMERICAN VETERANS
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE
HOUSE COMMITTEE ON VETERANS AFFAIRS
June 23, 1987

MADAM CHAIRWOMAN AND MEMBERS OF THE SUBCOMMITTEE:

On behalf of the more than one million members of the Disabled American Veterans, may I say how very much we appreciate the invitation to appear here today to provide our views on H.R. 2672, currently pending before the Subcommittee.

At the outset, Madam Chairwoman, the DAV wishes to commend you and the members of the Subcommittee for the serious oversight and legislative efforts undertaken this year to address various problem areas and deficiencies in the VA Home Loan Guaranty Program.

H.R. 2672

Introduced by you, Madam Chairwoman, on June 11, 1987, H.R. 2672 -- the Veterans' Housing Rehabilitation and Program Improvement Act of 1987 -- proposes various improvements in veterans' housing programs.

Section 2 of the bill proposes to amend Title 38, U.S.C., Section 1816(d)(3) to restrict the sale of portfolio loans to not less than the unpaid balance of the loans. The proposal does not, however, alter the VA's current authority to sell such loans with recourse.

As you know, the Office of Management and Budget has proposed the VA sell their entire loan portfolio without repurchase agreements (recourse).

The VA attempted, as you know, such a sale of a portion of their portfolio loans earlier this year. The VA has reported that offers on the proposed sale range from 15¢ to 55¢ on the dollar of the face value of these loans.

To insure OMB does not impose irresponsible requirements upon the VA's sale of portfolio loans, the DAV supports enactment of Section 2 of the bill.

Section 3 of H.R. 2672 proposes to amend Title 38, U.S.C., Section 1829 by:

1. extending the 1% user (origination) fee from September 30, 1987, to September 30, 1990;
2. providing a waiver of the user fee for veterans who are also eligible surviving spouses for purposes of this Section; and
3. establishing a mechanism by which the user fee may be suspended when it is determined that the Revolving Fund balance is sufficient to pay projected claims in the forthcoming Fiscal Year.

Madam Chairwoman, the DAV recognizes and fully understands the financial dilemma the VA Revolving Fund continues to face in

light of the continued high numbers of claims that must be paid due to foreclosures on VA guaranteed loans.

However, we must again express our serious reservations, as we did earlier this year, of requiring a veteran to pay for the privilege of using an earned benefit entitlement. We are now, and always have been, opposed to the concept of "user fees" in the loan guaranty program. We are pleased to note, however, that the legislation does provide a mechanism for suspending the user fee under specific circumstances.

The DAV is also pleased to note that the legislation continues to exempt from payment of the user fee compensably disabled service-connected veterans and surviving spouses in receipt of DIC benefits and has expanded such exemption to include eligible surviving spouses who are also veterans.

In this regard, Madam Chairwoman, we encourage the Subcommittee to also favorably consider amending Section 1829(b) to include all non-compensably disabled service-connected veterans for exemption from the user fee.

Section 4 of this legislation proposes to amend Sections 1803(a)(1), 1819(c)(3) and repeal Sections 1810(c) and 1819(c)(4) of Title 38, U.S.C., to remove the loan guaranty ceiling and establish a uniform guaranty of 30% for single family, condominiums and manufactured housing loans.

The intent of this proposal, as we understand it, is to help veterans purchase homes with the VA home loan guaranty in higher cost areas and, at the same time, provide a uniform policy on debts that accrue when foreclosure takes place.

Quite frankly, Madam Chairwoman, the DAV has some serious reservations with respect to the change in the loan guaranty, as proposed by Section 4 of the bill.

While the change would clearly benefit those veterans seeking to purchase a home in higher cost areas with the use of their VA home loan guaranty, it is unclear what benefit this change will provide to those veterans seeking to purchase homes in other than high cost areas.

Our evaluation of this proposal leads us to believe that only those veterans in high cost housing areas would benefit from this change, while many others stand to lose, perhaps significantly, should this proposal be enacted.

Accordingly, the DAV must object to this proposed change. However, we strongly urge the Subcommittee to increase the current \$27,500 loan guaranty to a level that will continue to benefit all veterans equally.

Section 5 of the bill proposes to amend Section 1816(a) of Title 38, U.S.C., to require the VA, upon notice of default in the payment of a loan guaranteed by the VA, to service such delinquent loan and provide the veteran with information regarding alternatives to foreclosure, unless the veteran has been adequately advised by the lender.

Madam Chairwomen, the DAV strongly believes the VA should personally contact and counsel each and every veteran who has defaulted on a VA guaranteed home loan to insure that every avenue has been explored to assist the veteran and protect the best interests of the government.

Furthermore, we believe adequate staffing is critical to the success of the proposal so that the VA may respond, on a timely basis, to those veterans who have defaulted on their

loans. Therefore, we recommend the legislative language of the proposal be strengthened to insure such staffing.

Section 6 of the measure proposes to amend the "no-bid" provision of Section 1816(c)(1)(D)(ii) of Title 38, U.S.C., by stopping the accrual of interest for calculation purposes in those cases where delays are caused either by the VA or the lender exercises forbearance at the request of the VA.

In these cases, as we understand it, the lender forfeits the right to be reimbursed for such interest if the VA acquires the property.

Since this proposed change appears to limit the veteran's indebtedness to the government -- should the VA acquire the property upon which the VA loan is in default -- the DAV can support its passage.

Section 7 of H.R. 2672 proposes to amend Section 1811 of Title 38, U.S.C., to establish a matching direct home loan program with the government of American Samoa for eligible veterans residing in that country.

Section 8 proposes, through amendments to several sections of Title 38, U.S.C., to redefine occupancy requirements for refinancing or loan origination purposes.

As we understand this proposed change, Madam Chairwoman, active duty members of the Armed Forces (eligible for VA Home Loan Guaranty Program) will, should this provision be enacted into law, be permitted to purchase a home using the VA loan guaranty or refinance an existing VA loan so long as their spouse and dependent children occupy the property as their home, even though the active duty military member does not reside on the property.

Madam Chairwoman, with respect to Sections 7 and 8 of this bill, the DAV has no official position.

Section 9 of the legislation proposes to extend authority to the VA under Title 38, U.S.C., to enter into agreements to sell difficult to sell foreclosed properties for the purposes of:

1. assisting homeless veterans and their families acquire shelter; and
2. providing a program of job training under the Veterans' Job Training Act.

The measure limits such agreements, for the purpose of assisting homeless veterans, to organizations "named in or approved by the Administrator under, Section 3402 of title 38, United States Code" and political subdivisions.

The legislation further requires the VA to insure that such action will not adversely impair the VA Home Loan Guaranty Program and that the entity acquiring the property provide shelter primarily for homeless veterans and complies with all applicable zoning laws.

With respect to agreements to sell such properties to persons for the purpose of a program of job training under VJTA to rehabilitate such residences, the proposed amendment permits the VA to provide discounts of up to 25% and require the purchaser to provide priority in the sale of such rehabilitated residences to veterans.

Under this provision, the VA is required to reduce the amount of the liability of the veteran who defaulted on the VA guaranteed loan, by the amount of the reduction in sale price below the fair market value of the property.

As you know, Madam Chairwoman, the DAV earlier this year expressed reservations to the Subcommittee relating to the use of foreclosed properties as shelters for the homeless.

While the pending proposal does address some of our previously mentioned concerns, we feel compelled to persist in expressing our reservations that utilizing foreclosed properties represents the best way for the VA to meet the needs of homeless veterans.

Section 10 of the bill proposes to authorize the VA under Title 38, U.S.C., to provide, for vendee loan purposes, such additional loan amounts as may be determined necessary to rehabilitate VA acquired property to a habitable state.

Section 11 of H.R. 2672 seeks to require in Title 38, U.S.C., new credit underwriting on an assumed VA home loan and provide an automatic release of liability for the veteran transferring such loan. Transfer of the loan requires the approval of the holder of the loan or the VA.

So long as the VA provides complete information to each veteran utilizing a VA guaranteed loan regarding the requirements of this Section, the DAV believes this to be a positive improvement in the current program.

Section 12 of the measure proposes to establish a mortgage foreclosure relief provision in Title 38, U.S.C., for the purpose of providing loans to refinance delinquent indebtedness on VA guaranteed home loans.

Assistance under this provision would provide up to a maximum of \$8,400 in loans to veterans facing foreclosure through no fault of their own -- i.e., unemployment or substantial reduction in household income.

The provisions of assistance provided by this Section would terminate in two years.

Madam Chairwoman, the DAV testified before this Subcommittee just over four years ago on legislation nearly identical to that which is proposed in this Section of H.R. 2672.

At that time, the DAV stated "our organization has been given no official mandate by its national membership in convention assembled on this subject. However, if polled on the issue, I am certain that the vast majority of DAV members would favor the enactment of legislation to provide assistance to financially disadvantaged veterans who are facing the prospect of having their VA guaranteed home loans foreclosed upon by a lending institution."

Inasmuch as that statement holds as true today as it did then, the DAV supports this provision of the bill.

Section 13 of H.R. 2672 proposes, through amendments to various sections of Title 38, U.S.C., to establish specific qualifications to be met by VA fee basis appraisers.

Additionally, this Section proposes to extend authority to the VA to permit appraisal reports to be sent directly to certain lenders for expedited review and reasonable value determinations.

The DAV applauds you, Madam Chairwoman, for recognizing and addressing the deficiencies and, in some cases, blatant fraud that has occurred among VA fee basis appraisers.

We believe the qualification standards set forth in this Section, coupled with the shared responsibility by automatic lenders for reviewing appraisals, is, without at doubt, a step in the right direction for improving the VA's fee basis appraisal process.

Section 14 of the measure seeks to amend Title 38, U.S.C., to exclude interest or other charges, including the cost of foreclosure proceedings, from a veteran's liability in those cases where the veteran has offered to convey the property to the VA via deed-in-lieu of foreclosure procedure and the VA has refused to accept the veteran's offer.

Madam Chairwoman, the DAV supports this provision of the bill.

With respect to the effective dates of H.R. 2672, it appears that all sections, except Sections 6, 11, and 12, would become effective on date of enactment. Section 6 and 11 would apply to loan commitments made on or after 90 days after enactment and Section 12 would take effect 60 days after date of enactment.

Madam Chairwoman, with the exceptions noted above, the DAV believes that H.R. 2672 greatly improves and strengthens the integrity and the basic purpose of the VA Home Loan Guaranty Program, for this our nation's veterans owe you their thanks and gratitude.

* * *

The DAV appreciates the opportunity to briefly comment on the additional items your letter indicated were also under consideration by the Subcommittee.

Legislation that would extend the present 1% user fee to individuals who assume VA guaranteed loans is not objectionable to the DAV.

We have, earlier in our testimony, set forth our views on user fees, however, inasmuch as many non-veterans assume VA guaranteed loans and reap the benefit of that guarantee, we believe that it is only reasonable to extend the fee to the individual who assumes such loans.

The idea of amending the current VA Home Loan Guaranty Program to authorize adjustable rate mortgages (ARMs) has been advocated by the mortgage banking community for a number of years.

To establish a pilot program for ARMs in a regional office may be one avenue to consider in order to evaluate its merit. However, we are concerned that adjustable rate mortgages, as with the Administration's negotiated interest rate proposal, will ultimately only benefit the lender and not the veteran.

This concludes our statement, Madam Chairwoman. Again, I wish to thank you and the members of the Subcommittee for allowing us this opportunity to express the DAV's views on this important legislation.

STATEMENT OF
BOB MORAN, ASSOCIATE LEGISLATIVE DIRECTOR
PARALYZED VETERANS OF AMERICA
PRESENTED TO THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE
HOUSE COMMITTEE ON VETERANS' AFFAIRS
CONCERNING THE
VETERANS ADMINISTRATION HOME LOAN GUARANTY PROGRAM
H.R. 2672
June 23, 1987

Ms. Chairwoman and Members of the Subcommittee, I am Bob Moran, Associate Legislative Director of Paralyzed Veterans of America, and on behalf of the members of PVA, a congressionally chartered veterans' service organization, I want to thank you for affording us the opportunity to present our views here today.

Initially, I want to extend PVA's appreciation to you, Ms. Chairwoman, and the Members of this Subcommittee, for holding this hearing, in your efforts to improve the effectiveness of the Veterans Administration Home Loan Guaranty Program, and for allowing PVA the opportunity to work with you and your most competent and professional staff in this important endeavor.

The VA Home Loan Guaranty Program

Since the program's inception in June of 1944, the Veterans Administration Home Loan Guaranty program has assisted over 12 million veterans and their families in obtaining suitable, affordable housing. The VA Home Loan Guaranty program is an entitlement program, with every veteran meeting the requirements, as provided by statute, being eligible for the guaranty of their mortgage up to 60 percent of the loan or \$27,500, whichever is less.

It has been one of the most successful housing programs in this nation's history, and the vast majority of loans guaranteed have cost taxpayers only the minor administrative cost of processing the initial loan. Without a doubt, the VA Home Loan Guaranty Program for 43 years has been a good investment in America, providing stability and expanding the tax base of nearly every community in our country.

"Veterans' Housing Rehabilitation and Program Improvement Act of 1987"

H.R. 2672

PVA applauds the Chairwoman for introduction of H.R. 2672, which makes numerous changes and improvements in the VA Home Loan Guaranty Program. This legislation amends Title 38, U.S.C., increasing the maximum guaranty permissible for VA guaranteed home loans, by removing the loan guaranty ceiling on a VA home loan of \$27,500 and providing a uniform guaranty of 30 percent. PVA fully supports the intent and purpose of this provision. As stated earlier, since the program's inception, the VA Home Loan Guaranty program has assisted over 12 million veterans and their families in obtaining housing. This is proof enough that the VA Home Loan Guaranty program has been a successful program, but it needs to keep up with the ever increasing housing costs of today.

The last time the VA Home Loan Guaranty amount was increased was October 1980, and housing costs since then have dramatically risen making the average cost of a house today over \$111,000. Increasing the loan guaranty amount is warranted and greatly needed. New housing purchased under the VA Home Loan Guaranty Program will also assist the housing industry and housing development nationwide. In turn, this will improve employment for skilled and unskilled workers for certain labor markets, and, as a consequence, the government will receive uncalculated benefits. In recognizing the escalating costs associated with housing today, PVA supports increasing the maximum amount of a VA Home Loan Guaranty.

As you are aware Ms. Chairwoman, H.R. 2672 includes various provisions concerning the VA's Home Loan Guaranty Program. PVA will comment on a couple of the provisions contained within the bill which have direct implications for the continued viability and security of the VA Home Loan Program. The

other provisions of H.R. 2672, more technical or administrative in nature, should be judged solely on their potential effects on the program and the nation's veterans. PVA has no position regarding these provisions other than to call upon the wisdom of this Subcommittee to continue to view each as it may assist veterans in gaining suitable, affordable housing.

Section 3 of H.R. 2672 extends the one percent fee imposed on Veterans Administration guaranteed home loans for two years, to 1989; waives the origination fee for veterans who also are service-connected surviving spouses; and suspends fee at such time as the revolving fund balance is sufficient to pay claims for one year. PVA wholeheartedly supports these provisions and is opposed to any increase of the "users fee" within the VA Home Loan Guaranty Program. We believe that an increase, whether it be twofold or fivefold, would, if enacted, have a serious detrimental effect on the ability of veterans to obtain VA guaranteed loans and thereby discourage veteran home ownership. By raising the origination fee, veterans using their VA guaranty entitlement would either have to pay the increased fee up front, or have the fee added into the loan. This would result in the veteran having to have approximately a thousand dollars on hand, or add the user's fee into the loan, thereby, raising the amount of the mortgage and exceeding the actual property value. PVA supports the passage of Section 3 of H.R. 2672, extending the one percent fee, charged by the VA to veterans obtaining a VA Home Loan Guaranty, for two years, till 1989.

Ms. Chairwoman, I would like to briefly comment on Section 8 of H.R. 2672. The recent decline in home mortgage interest rates has resulted in lowered housing costs. Military personnel who are transferred to new duty stations are not allowed to refinance their VA home loans because they do not reside in the home. Even if the service-member's spouse and children reside in the home, they still are ineligible to refinance. PVA supports the provision contained within the bill which would change the current law to allow active duty personnel to refinance through the VA. The veteran gets lower housing payments, thereby decreasing the chance of veterans defaulting on their mortgages.

PVA would like to comment on another issue in reference to the VA Home Loan Guaranty Program that is contained in an Administration proposal this year.

It is a provision that eliminates the fixed interest rate on VA guaranteed loans. This provision would allow that loans guaranteed or insured under Chapter 37 of Title 38 shall be payable on such terms and conditions as may be agreed upon by the parties, and these loans shall bear interest at such rate as may be agreed upon by the veteran and the lender, provided, however, that such loans shall bear the same interest rate for the life of the loan. PVA strongly opposes this provision.

Currently, under Title 38, U.S.C., the Administrator has the authority to set maximum allowable interest rates. Several years ago the Federal Housing Administration policy, which was similar to the VA's current policy of a set interest rate, was repealed to allow for a negotiable rate. The efficacy of this change certainly is questionable as was illustrated by introduction of legislation that would repeal the negotiable rate used by FHA, and revert it back to the policy as presently used by the VA.

Also, if the Administration's proposal of negotiated interest rates were implemented, the "no down payment" feature of the VA Home Loan Guaranty Program could be jeopardized. PVA believes that in order for a veteran to negotiate and secure a favorable interest rate, it quite possibly would be necessary for the veteran to make a sizable down payment, thereby removing the incentive for veterans to use the program. To allow negotiated interest rates would completely negate the VA Home Loan Guaranty Program and place the veteran borrower in a situation whereby the veteran would have to seek out favorable terms and could possibly be forced by lenders to accept above market rates. PVA opposes negotiated interest rates.

Another provision which PVA believes is important for the Subcommittee to consider, is the "no-bid" formula contained in Section 2512 of the Deficit Reduction Act of 1984. PVA believes that the current "no-bid" option by the VA should be maintained, with the VA having the authority to pay the guaranty, thereby being released from all responsibilities, or take title to the property. This provision allows the VA the flexibility to exercise the most financially prudent disposition of foreclosed properties.

Ms. Chairwoman, that concludes my statement. Thank you and the Members of the Subcommittee for your extremely deliberate and thoughtful consideration of these issues. I will be glad to respond to any questions that you may

STATEMENT OF
DENNIS M. CULLINAN, ASSISTANT DIRECTOR
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

WITH RESPECT TO

H.R. 2672 AND THE VA HOME LOAN GUARANTY PROGRAM

WASHINGTON, D.C.

June 23, 1987

MADAM CHAIRWOMAN AND MEMBERS OF THE SUBCOMMITTEE:

It is a distinct pleasure and a honor to present the views of the Veterans of Foreign Wars as they pertain to H.R. 2672, "Veterans Housing Rehabilitation and Program Improvement Act of 1987," a bill introduced by Chairwoman Marcy Kaptur, which is designed to greatly enhance the functioning of the Veterans Administration (VA) Home Loan Guaranty Program. The Veterans of Foreign Wars is committed to working for the improvement of this enormously beneficial veteran's program and we recognize that H.R. 2672 would, in the main, go a long way towards achieving this end.

The VFW cannot state strongly enough our conviction that the VA Home Loan Program is first and foremostly a veteran's benefit. As such, it should not always be expected to operate at a profit or, for that matter, break even. That is simply not in the nature of benefit programs. The VFW is appalled at those who are attempting to assess ever greater user fees and eliminate certain types of loans just because the program is now operating at a loss. Benefit programs almost never make money, although through the majority of its existence, the VA home loan program has done just that.

The VFW does, of course, firmly support various initiatives which would serve to enhance the effectiveness and efficiency of the program. Because, as we see it, such initiatives serve to achieve the very purpose for which the program exists, namely--enabling veterans to achieve the American dream of homeownership. We wish to see them purchase these homes under the most favorable possible terms and for these veterans to keep their homes.

Section 2 of H.R. 2672 prohibits loan portfolio sales unless at 100 percent or more of par value. While in the past the VFW has recognized the need to discount certain loan sales, especially those sold without recourse, it is now apparent that this approach has not produced the desired revenue. It has created an avenue whereby certain shortsighted individuals may compel the VA to divest itself of an inordinately large portion of its loan portfolio in order to create the appearance of operating in the black. The VFW is adamantly opposed to such schemes to force the VA to sell-off almost its entire loan portfolio for the sake of a short term fiscal fix which would serve to the extreme detriment of the long-range operation of the program. Thus, the VFW supports this section both to prevent the precipitous wholesale divestiture of the loan portfolio and to achieve the additional advantage of allowing the VA to achieve full dollar value on loan portfolio properties along with working to prevent a severely depressed buyer's market.

Section 3 extends the one percent origination fee for three years with the stipulation that this fee would be suspended in the event that the Revolving Fund balance is sufficient to pay claims for one year. Section 3 also waives the origination fee for veterans who also are service-connected surviving spouses. The VFW continues to oppose the one percent user fee as a discriminatory tax imposed upon veterans. However, we also recognize that this one percent tax would not be eliminated unless an appropriate and acceptable mechanism is set in place to achieve this most desirable end. The VFW views this section's three year extension coupled with the mandate that this fee be suspended at such time the Revolving Fund is operating in the black as being such a mechanism. The VFW fully supports the

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provision to waive the origination fee for veterans who also are service-connected surviving spouses. This is a technical amendment which would eliminate the situation where the survivor of a spouse who dies of a service connected disability is deprived of his or her right to waive the origination fee simply because the individual is a veteran.

Section 4 removes the loan guarantee ceiling and provides a uniform guarantee of 30 percent for single family, condominiums and manufactured housing loans. The VFW strongly favors this section since removing the loan guarantee's ceiling and providing a uniform guarantee of 30 percent would help veterans who wish to purchase homes in high cost areas, such as Washington, and also establish a uniform policy on veterans indebtedness in the event of foreclosure. Furthermore, this section would also have the salutary effect of reducing the veteran's and VA's financial risk when guaranteeing relatively low cost loans.

Section 5 would require more intensive efforts toward serving delinquent loans. Title 38 would be amended to provide in the event of default that the Administrator shall contact the concerned veteran for the purpose of providing information about alternatives to foreclosure such as conveying the property to the Administrator or utilizing the methods authorized under 38 USC 816 (a)(2) for the purpose of reducing the veteran's indebtedness. The Administrator would be required to provide the veteran with information in the event of foreclosure pertaining to the VA and the veteran's liability with respect to the loan and, additionally, methods of reducing the veteran's liability to the VA. This section also provides that the VA must take all necessary and appropriate steps to ensure that sufficient personnel are available to effectively and sufficiently administer the provisions of this section. The VFW supports this section.

Section 6 amends the "no-bid" provision by stopping the accrual of interest for calculation purposes in cases, where delays are caused by the VA or when the lender exercises forbearance at the request of the VA. In return, the lender forfeits the right to be reimbursed for such interest if the VA acquires the property. The VFW concurs that this modification seems to be fair and would not harm the veteran, so we therefore would not oppose it.

Section 7 establishes a matching direct loan program in American Samoa. It would establish what is essentially a matching grant program whereby the VA would lend the veteran an amount equal to the amount provided by the government of American Samoa. The VFW supports this provision since it would eliminate the unfortunate situation where veterans living in American Samoa cannot get a home loan because there are no lenders available in that area. This provision is in keeping with the letter and spirit of 38 USC 1811 which provides for making loans to veterans for the purpose of purchasing a home in certain "housing credit shortage areas."

Section 8 redefines occupancy requirements for refinancing or loan origination purposes. This section would essentially remove the occupancy requirement for certain veterans. This proposal addresses the predicament of the military officers and enlisted personnel who are transferred to new duty stations and who are, therefore, not allowed to refinance their VA home loans because they do not reside at their home. The VFW supports this proposal which would allow such individuals to take advantage of lower interest rates by refinancing their home loan. The VFW believes that veterans should not be denied the right to refinance their VA home loans just because they have chosen to continue to serve their country and in the course of this service have been relocated. We believe that when a veteran is transferred in the service of the nation, it represents an acceptable reason for allowing that veteran to refinance his home loan.

Section 9 pertains to property management and (a) encourages organizations and political subdivisions to acquire difficult to sell foreclosed properties to assist homeless veterans and authorizes the Administrator to discount properties for that purpose. The plight of this nation's homeless veterans is one of the major concerns of the Veterans of Foreign Wars and for this reason we support this provision. Part (b) of this section authorizes up to 25 percent discounts on properties to organizations who agree to use veterans through the Job Training Act to rehabilitate these properties and to give priority to veterans in the purchase of these rehabilitated homes. It further mandates the Administrator to reduce the amount of any liability that a veteran has with respect to any property conveyed under this section by an amount equal to the reduction in the sale price of the property below the fair market value of the property. The Veterans of Foreign Wars fully supports this section.

Section 10 stipulates that the Administrator may include, as part of a loan to finance a purchase of property acquired by the Administrator as a result of a default on a VA loan, an amount to be used only for the purpose of rehabilitating the property to be purchased with the loan. This additional money may not exceed

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the amount necessary to rehabilitate the property to a habitable state and would be made available periodically as such rehabilitation is completed. The VFW supports this section inasmuch as one of the factors working to the detriment of the vendee loan program is that many of the properties are not habitable and under current law a sum sufficient to rehabilitate such property is not allowed to be included into the loan amount. The VFW believes that section 10 will help the program through promoting vendee loan sales and would further serve to rehabilitate both deteriorated properties and the neighborhoods in which they stand.

Section 11 would require new underwriting on assumed loans with an automatic release of liability to the veteran selling the property upon approval of the loan. The VFW strongly supports this provision inasmuch as veterans are often unaware that they must apply for a release of liability under current law. This often results, in the event of foreclosure by the person who has assumed the loan, in an unfair and often devastating debt being placed upon the veteran due to no fault of his own.

Section 12 authorizes mortgage foreclosure relief by making loans up to a maximum of \$8,400 to veterans facing foreclosure through no fault of their own. The VFW strongly supports this proposed Mortgage Foreclosure Relief Program which would serve to prevent loans going to foreclosure and would go a long way in saving the VA Home Loan Program money by preventing the enormous expense consequent to a foreclosure procedure and keeping the veteran in his own home by providing him or her with the necessary financial assistance to weather a difficult period and remain in his or her own home.

Section 13 outlines and establishes qualifications for VA fee base appraisers. These qualifications include the successful completion of a written test, submission of a sample appraisal, certification of an appropriate number of years of experience as an appraiser, and submission of a recommendation from other appraisers. This section authorizes appraisers to send their appraisal reports directly to certain lenders who have been authorized by the Administrator to determine reasonable value of property for expedited handling. The VFW believes that this action would speed up the processing of loans and enable veterans to take advantage of low interest rates when the opportunity presents itself. We recently had a situation with low interest rates where the VA was so overwhelmed with requests to refinance loans that they could not be all handled in a timely manner and certain veterans were unable to take advantage of the low interest rates at that time. So long as the approved appraisers are required to abide by stringent professional and ethical standards and are periodically monitored by the VA, the VFW supports this section.

Section 14, the final section of this bill, excludes foreclosure costs from a veteran's liability if the veteran offered to convey the property to the VA via a deed-in-lieu-of-foreclosure procedure. In any case in which the Administrator refuses to accept the veteran's offer to convey the property to the VA in lieu of a foreclosure procedure then the Administrator may not include in the liability to the veteran any interest or other charges, including the cost of foreclosure procedures, incurred with respect to that loan at 30 days after the date of which such an offer was made. The VFW strongly supports this provision inasmuch as it would prevent veterans from accruing a large additional debt in the event of a foreclosure when it could have been avoided through a deed-in-lieu-of-foreclosure procedure which had been refused by the Administrator.

As a whole, the Veterans of Foreign Wars strongly supports the enactment into law of H.R. 2672. We recognize this bill as being the culmination of many months of hard work by certain members of Congress, first and foremostly the Chairwoman of this Subcommittee, Marcy Kaptur, House Veterans' Affairs staff members and the veterans organizations. This bill represents a bold, innovative and proactive approach toward improving the performance of the VA Home Loan Program and in assisting veterans in purchasing and then maintaining their own homes.

We will now briefly consider the two additional items for consideration today. The first addresses a pilot program for adjustable rate mortgages (ARMS) in one regional office. The VFW severely opposes ARMS, since this can result in a veteran being saddled with an enormous debt when interest rates rise. The history of ARMS has not been a happy one. In recent years many defaults and foreclosures are directly attributable to rapid and large elevations in interest rates causing a once manageable loan to be transformed into an insurmountable financial burden. The VFW does not want this tragic fate to befall our nation's veteran homeowners. With respect to a pilot program, the VFW can see no purpose in conducting such an enterprise. To begin, the harmful effects may only be witnessed over a number of years. Furthermore, loans issued at one regional office would most certainly not represent loans as a total cross section of this nation's veterans. Thus a pilot program at a single regional office would have to be conducted for many, many years and, even then wouldn't deliver accurate results as to the impact of ARMS on the entire VA Home Loan Program. Also of concern to the VFW is the harmful effect

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ARMS would have on the VA Home Loan Program itself. Increased default and foreclosure rates due to increased interest rates would obviously be highly detrimental to the program. Furthermore, ARMS would be much more difficult to manage than standard fixed rate mortgages. The VA, for example, would be very hard put to project its operating expenses through the years because ARMS interest rates are subject to the vacillations of the economy. Once again, with respect to a pilot program at a single regional office, the effect could only be witnessed over a protracted period of time and the VFW can see no benefit in conducting such a long term experiment which has so little potential for delivering accurate information.

The final item of consideration is the implementation of a one percent user fee for individuals assuming a VA loan. Although the VFW generally opposes fees in conjunction with any veteran's benefits or entitlement program, we do recognize the fact that a user fee for individuals assuming a VA loan would be a means of benefiting the VA Home Loan Program by requiring non-veterans to contribute for the privilege of participating in what is a veteran's program. As it now stands, when a veteran utilizes the program to make a first-time home purchase, he or she must pay the an one percent fee, however, a non-veteran assuming a VA loan is required to pay nothing. The VFW believes this is unfair and we contend that non-veterans benefiting from the program should at least contribute toward its continued operation.

Madam Chairwoman, this concludes my statement. Once again I wish to thank you for inviting our participation at this hearing which so amply demonstrates both a commitment to the VA Home Loan Program and the veterans it serves, and a willingness to take bold and innovative steps in order to achieve this most desirable end. I thank you and will be most happy to respond to any questions you may have.



Statement of
The American Legion

1608 K STREET, N. W.
WASHINGTON, D. C. 20006

by

PAUL S. EGAN, DEPUTY DIRECTOR
NATIONAL LEGISLATIVE COMMISSION
THE AMERICAN LEGION

and

EMIL W. NASCHINSKI, ASSISTANT DIRECTOR
NATIONAL ECONOMIC COMMISSION
THE AMERICAN LEGION

before the

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

on

LEGISLATION TO REFORM THE VA HOME LOAN PROGRAM

June 23, 1987

STATEMENT OF
 EMIL W. NASCHINSKI, ASSISTANT DIRECTOR
 NATIONAL ECONOMIC COMMISSION
 AND
 PAUL S. EGAN, DEPUTY DIRECTOR
 NATIONAL LEGISLATIVE COMMISSION
 THE AMERICAN LEGION
 BEFORE THE
 SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
 COMMITTEE ON VETERANS AFFAIRS
 U.S. HOUSE OF REPRESENTATIVES
 ON
 VA LOAN GUARANTY SERVICE
 JUNE 23, 1987

Madam Chairwoman and distinguished members of the Subcommittee:

The American Legion appreciates the opportunity to share with you our views on HR 2672 which is currently being considered by this Subcommittee. Attached to our written statement are copies of two resolutions that were adopted by the Legion this past September. We respectfully request that they be made a part of the record.

Section 2 of HR 2672 would amend section 1816(d)(3) of title 38, USC, to prohibit the sale of vendee loans for less than par value. The American Legion supports this provision.

Unlike many other federal programs, the VA's Loan Guaranty Service has for the most part been well managed, and, until recent years, has remained completely self supporting. One of the major reasons that the program eventually became insolvent had to do with the sale of its loan portfolio.

With enactment of the Budget Reconciliation Act of 1983, the VA was forced by the Office of Management and Budget (OMB) to sell its portfolio of vendee loans in order to generate income for the Treasury. This initiative was highly shortsighted. Without the portfolio, the VA was unable to borrow on its assets to meet guaranty obligations at precisely the same time that foreclosures were increasing dramatically because of economic conditions.

Madam Chairwoman, The American Legion believes that further liquidation of the loan portfolio for quick revenue purposes should be prohibited. Instead, we feel that, if vendee loans cannot be sold at 100 percent of par, or more, the VA should be allowed to rebuild its loan portfolio and restore it to its former profit generating status.

Section 3 seeks to make three (3) changes in section 1829 of title 38 regarding the loan origination fee. The first of these changes would extend authorization of the user's fee through September 30, 1990. Since our last appearance before this Subcommittee in April of this year, The American Legion has not wavered in its opposition of the user's fee. In our opinion, Madam Chairwoman, the user's fee is nothing more than a form of taxation; a tax which has been placed on an earned entitlement. We further believe that those men and women entitled to use this program have already paid a very dear price for their eligibility.

Our other objection to the user's fee is that it defeats the purpose of the program and creates a disincentive for its use. Under present law, when a veteran purchases a home, that person has the option of either paying the fee in full at the time of sale, or

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including it in the total loan amount and amortizing it over the life of the loan. In either case, lower income veterans and first-time home buyers are often precluded from the housing market because they can neither pay such a fee up front, nor can they afford the increase in monthly payments that such a fee can represent. The sad thing here, Madam Chairwoman, is that these are precisely the people who need this program the most.

The section's second provision would amend section 1829 to allow a surviving spouse who is a nondisabled member of the military, and whose husband or wife died of a service connected disability, to be exempt from paying the user's fee. The American Legion is supportive of this measure.

The final provision of section 3 provides for the suspension of the user's fee under certain conditions. While The American Legion remains steadfastly opposed to the user's fee, we nonetheless appreciate this gesture on the part of the Subcommittee. We do, however, have an additional suggestion. If Congress is intent on keeping the user's fee in effect, first-time home buyers should be exempt from paying the fee.

Section 4 would amend sections 1803(a)(1) and 1819(c) of title 38 by removing the loan guaranty ceiling and providing a uniform guaranty of 30 percent for single-family homes, condominiums and manufactured housing loans.

This is an alluring idea that The American Legion believes is worthy of further consideration. One of the reasons that we favor this provision is that it would remove the credit ceiling on VA home loans. As you well know, Madam Chairwoman, the cost of homes in cities like New York, Los Angeles, San Francisco and the District of Columbia generally far exceed the national average cost of \$74,324. Since the maximum loan amount on VA mortgages is set at \$110,000, it is often difficult, if not impossible, for veterans living in the aforementioned cities to purchase a suitable home. Frequently, it is necessary for the veteran to pay in excess of the maximum loan amount in order to obtain adequate housing. In these cases, the veteran is expected to make up the difference between the selling price and the maximum loan amount in the form of a down payment. As a result, many first-time home buyers, lacking capital, cannot enter the housing market.

Our reservation with this provision is the size of the percentage of guaranty. After doing some simple arithmetic, we are of the opinion that a higher percentage is needed to protect those veterans purchasing low and moderately priced homes. We believe that unless the percentage is raised to 40 or 45 percent, lenders will be disinclined to make loans to these veterans because their investments would not be as well protected as they are under current law. Since lower income veterans and first-time home buyers (those who need the VA home loan program the most) are more likely to purchase less costly homes, we urge the Subcommittee to investigate this further and to give serious consideration to our proposal.

Section 5 seeks to amend section 1816(a) of title 38 to provide for the servicing of delinquent loans and the furnishing of alternative procedures to foreclosure.

The American Legion is pleased that the subcommittee has included this much needed provision in HR 2672. However, we would like to recommend two changes to the current provision. First, we would suggest that lines 13 and 14 be rewritten so that they would read as follows:

"...contact the veteran concerned for the purpose of providing financial counseling to the veteran, including information about..."

We also would recommend that a third clause be added which would require the VA to refer veterans, whose financial difficulties stem from being unemployed, underemployed or dislocated, to VA's Veterans Service Division staff in the regional office for appropriate employment advice and job referral.

Section 6 would amend section 1816(c)(1)(D)(ii) of title 38 concerning accrual of interest for calculation purposes.

Madam Chairwoman, if a foreclosure is delayed by circumstances beyond the control of the lender, then we believe that party should have the option to stop the accrual of interest for purposes of the no-bid calculation in return for forfeiting the right to be reimbursed for such interest if the VA acquires the property.

Section 7 of this bill would amend section 1811 of title 38 by authorizing the establishment of a matching direct loan program in American Samoa.

Madam Chairwoman, inasmuch as the men and women of American Samoa have served with honor and distinction in the armed forces of the United States since 1900, The American Legion finds no fault with this provision.

Section 8 seeks to amend various sections of title 38 to remove occupancy requirements in certain cases.

As you know, Madam Chairwoman, refinancing has the potential of saving the home owner many thousands of dollars. In some cases, it may even allow that party to retain their home rather than going into default. We believe that certain veterans, such as those on active military duty, foreign service personnel and others whose jobs require periodic transfer, should be given this option. However, since The American Legion does not want to see the VA's home loan program turned into an investment program, and since we also do not want to see the LGRF jeopardized any further, may we suggest that this privilege be restricted to those veterans whose spouse continues to occupy the residence. We also believe that the veteran should be required to certify that he or she plans to reoccupy the home at some future date.

Section 9 of this bill would expand title 38 with provisions to assist the VA in its ability to manage acquired properties and to provide assistance to homeless and unemployed veterans. Madam Chairwoman, The American Legion is generally supportive of these provisions.

The first proposal, which entails using certain properties as shelters for homeless veterans, is similar to a proposal made earlier this year by Senator Cranston in S. 477. During hearings on that bill, The American Legion expressed reservations about the appropriateness of using many of the properties acquired by the VA as shelters. Our concerns were twofold: First, we believed that the proposal should not commit the VA to liability for the property in perpetuity. Second, shelters and halfway houses are often focus of acrimonious debate in local communities. We were concerned that the shelters could adversely affect the community relations of local VA offices, which already often have an image problem which discourages many veterans from using their services.

Fortunately, Madam Chairwoman, the provisions of Section 9 of your bill, particularly the restrictions contained in subparagraph (a)(3), we believe, deal quite adequately with these concerns.

The second proposal, which would involve rehabilitation of VA-acquired properties in conjunction with training eligible veterans under the Veterans Job Training Act, also has considerable merit. The concept of housing rehabilitation programs for veterans has been discussed for a number of years, and several programs have actually operated for short periods. The common problem with these programs has been their operation by nonprofit organizations under contract with the government, and resultant undercapitalization. In addition, most programs found themselves facing the morass of property acquisition and disposition regulations attendant to any publicly funded contract. The program provisions of section 8 represent a novel approach to the housing rehabilitation training concept, since the contracting with the VA for job training and the acquisition and disposition of VA property are essentially separate operations. More importantly, the program allows the participation of for-profit, private sector employers with real job opportunities beyond the completion of training.

The American Legion does have some concerns, Madame Chairwoman, about the potential for fraud and abuse in the program. Although the vast majority of general contractors in the United States are certainly reputable, there are certain companies and "fly-by-night" operators which will exploit the potential for purchasing discounted property, hiring labor with the Federal government paying half the bill, providing minimal training, making a quick profit, and leaving the Veterans Job Training Act participant unemployed once again at the completion of the project or training period. Thus, we believe that Section 8 should contain provisions authorizing the Administrator to establish certain standards and eligibility requirements which contractors must meet prior to the approval of their participation in this program. These requirements and standards would protect the interests, not only of the veteran trainee, but of the government and the general contractor community.

Section 10 would amend section 1816(d) of title 38 to allow an additional loan amount to rehabilitate the property and make it habitable.

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While The American Legion would favor this provision on the grounds that it would make vendee loans more salable, our overriding concern is the impact that such a change in the law might have on the LGRF.

In testimony before the Senate Veterans Affairs Committee on June 17th, the VA's Chief Benefits Director reported that vendee loans experience foreclosure rates three times that of guaranteed loans and four times that of conventional loans. In light of this report, The American Legion would urge the Subcommittee to give this provision further consideration.

To remedy this problem, The American Legion would suggest that the Subcommittee consider requiring a down payment in cases of vendee loans. Also, it may be advisable to require the VA to oversee the implementation of the rehabilitative housing proposal to assure that veterans are protected from unscrupulous contractors who fail to complete contracted work on time and to assure that the work is completed qualitatively as agreed. In that regard, the Subcommittee may wish to add a provision requiring the VA to report its findings and suggestions to Congress after the VA has acquired some experience with rehabilitative housing.

Section 11 would amend section 1817 of title 38 to protect the veteran from possible liability in cases of loan assumption.

Madam Chairwoman, The American Legion applauds you and the members of the Subcommittee for your recognition of this problem, and for the measures that you have proposed to rectify this gross injustice. However, we do have two reservations about this section of HR 2672.

First, The American Legion is not only concerned about providing protection for future veterans whose assumed loans may go into foreclosure, we are also concerned about those veterans who have already been notified by the VA of an overpayment. Since most of these veterans were not notified about the overpayment until after the foreclosure, we believe that they have been deprived of "due process," and that their liability should be canceled.

As a result of our experience in representing claims involving indebtedness to the VA arising from liability for assumptions, we have discovered that the VA is handling claims unfairly. Routinely, the Board of Veterans Appeals ultimately finds the indebtedness to be due to no fault of the veteran. This finding is accompanied by a decision to remand these claims to the originating VA Regional Office (VARO) for final decision. The VAROs then routinely secure a financial statement from the veteran in order to determine whether the veteran can afford to absolve the indebtedness. Once the financial statement is received, a determination to either waive the indebtedness or collect the monies owed is made on the basis of what the veteran can afford. In other words, irrespective of BVA's findings of no fault on the part of the veteran, the veteran is essentially guilty if he can afford to pay, and not guilty if he cannot afford to pay. In our view, this is totally unacceptable.

Second, we do not believe that the VA has done an adequate job of informing veterans about their obligations under the law regarding loan assumptions. The American Legion believes that the language directing VA to inform veterans of their rights and obligations at the time of sale should be stronger.

Section 12 would amend section 1816 of title 38 by authorizing mortgage foreclosure relief. The American Legion supports this provision of HR 2672. We would, however, suggest that the VA be required to monitor the program, and to report its findings and recommendations to Congress on a regular basis.

Section 13 seeks to amend sections 1810 and 1813 of title 38 by establishing guidelines for the qualification of VA fee-basis appraisers. Also, this section authorizes appraisal reports to be sent directly to certain lenders for the purpose of expediting review and the determination of reasonable value.

In the past there have been no qualification standards for appraisers. As a result, the LGRF has at times suffered because of inaccurate appraisals. The American Legion, therefore, supports this proposed change in title 38.

Since the second provision would streamline field operations and lead to more timely service for veterans, we would support this measure also. However, we believe that the VA must monitor this new system to prevent fraud and abuse. Additionally, we believe that the VA must be required to report periodically to Congress on their findings.

Section 14 would expand section 1819 of title 38 by adding a provision that would exclude foreclosure costs from the veteran's liability if that veteran offered to convey the property to the VA via deed-in-lieu of foreclosure proceedings. Since this new provision would provide better protection to the veteran, The American Legion has no objection to this amendment.

Madam Chairwoman, in your recent letter you requested our input not only on HR 2672, but also on two other issues. The first of these issues is a proposal for a pilot program for Adjustable Rate Mortgages (ARMs) in one VA regional office.

The American Legion has repeatedly asserted its strong opposition to VA guaranty authority for ARMs. To authorize VA-guaranteed ARMs based on the theory that a veteran's income will rise fast enough to keep up with upward adjustments in interest rates applied to mortgages, ignores the history of ARM foreclosure rates during the most recent recession. That history reveals that incomes did not rise fast enough to avert foreclosures. It also reveals that the risks of upward surges in interest rates constitute an unacceptable gamble on market stability. On the other hand, interest rates could come down to levels below those at the time an ARM was issued. Unfortunately, this still requires a potentially disastrous leap of faith by the borrower.

You also asked, Madam Chairwoman, for our response to the question of whether or not a one percent user's fee should be charged for VA loan assumptions. As you well know, The American Legion is strongly opposed to the user's fee in regard to veterans because we see it as a discriminatory tax on a veteran's entitlement. Further, we believe that it often prevents lower income veterans and first-time home buyers from purchasing home. In this case, however, we would not be opposed because those assuming the loans (who may or may not be veterans) are doing so because the terms are likely to be far more favorable than those prevailing at the time of the assumption.

Madam Chairwoman, that concludes our statement. Once again, thank you for allowing us this time to express the views of The American Legion.

THE AMERICAN LEGION
68TH NATIONAL CONVENTION
CINCINNATI, OHIO
SEPTEMBER 2-4, 1986

RESOLUTION 467

SUBJECT: SUPPORT VA LOAN GUARANTY PROGRAM

WHEREAS, The VA home loan program, as a benefit available to veterans who served their country honorably, has provided nearly 12 million veterans with the opportunity to own their own homes; and

WHEREAS, Because of changing economic conditions and the very volatile nature of the real estate market, many hundreds of thousands of Vietnam era veterans have been unable to purchase their first homes; and

WHEREAS, The home loan program has operated successfully under the Veterans Administration since 1944, and has acted as a model for similar programs; and

WHEREAS, From time to time initiatives are made in the home loan program that would dilute the intent of the home loan program and make it more difficult for veterans to obtain VA-guaranteed home loans; now therefore be it

RESOLVED, By The American Legion in National Convention assembled in Cincinnati, Ohio, September 2,3,4, 1986, that The American Legion support the home loan program for veterans in the Veterans Administration, and oppose any regulations or legislation that will make it difficult for veterans to buy homes; and be it further

RESOLVED, That The American Legion oppose imposition of any user fee; and be it finally

RESOLVED, That The American Legion support legislation to exempt the VA home loan credit limits from the requirements of Gramm-Rudman-Hollings legislation.

THE AMERICAN LEGION
68TH NATIONAL CONVENTION
CINCINNATI, OHIO
SEPTEMBER 2-4, 1986

RESOLUTION 511

SUBJECT: VA LOAN ASSUMPTION

WHEREAS, The VA's home loan program, one of the most important of all veterans benefits, has provided over 11 million veterans and their families the opportunity to become home owners; and

WHEREAS, One of the attractive features of the program is that, if the veteran chooses to sell his home, his VA-backed loan may be assumed by the purchaser and by subsequent purchasers; and

WHEREAS, Under present law, unless the veteran has secured a Release from Liability from the VA at the time of the sale, and, in case of default by any purchaser who assumes the veteran's original loan, the veteran remains liable for the unpaid balance of the mortgage; and

WHEREAS, Many veterans, unaware of the need to secure such a Release from Liability, have suffered financially because of having to pay off a debt that was not of their own making; now therefore be it

RESOLVED, By The American Legion in National Convention assembled in Cincinnati, Ohio, September 2,3,4, 1986, that The American Legion seek legislation to remove the VA requirement that a veteran must secure a Release from Liability statement when a purchaser assumes a VA loan, providing that the VA shall proceed only against the individual who defaults on a VA-guaranteed loan; and be it further

RESOLVED, That such legislation shall provide that the VA shall cancel any existing claims against any veterans who had previously owned such defaulted property, including those claims being processed at the time the legislation becomes effective, and cancelling any ongoing collections from veterans because of such claims.

Statement of C. Earl Corkett, President of the Mortgage Insurance Companies of America, MICA in Connection with Hearings on H.R. 2672 of the Subcommittee on Housing and Memorial Affairs of the House Committee on Veteran's Affairs.

July 2, 1987

Madam Chairman and Members of the Subcommittee:

The Mortgage Insurance Companies of America (MICA)* appreciates the invitation to submit comments on H.R. 2672 the "Veterans' Housing Rehabilitation and Program Improvement Act of 1987" from the perspective of the private mortgage insurance industry. MICA is the trade association which represents all domestic private mortgage insurance companies (MICs). Our industry provides default insurance to lenders in much the same way that the VA does, enabling individuals through out the United States to purchase homes of their own with minimal down-payments. We hope our comments will be useful.

It is important to note two points before we comment on some of the specific sections of the Bill. First of all, we realize that the VA program was designed with certain public policy considerations in mind which are not at issue when a private insurer evaluate risks and settles claims. Secondly, because of state insurance laws designed to limit risk, MICs cannot insure loans where the buyer does not make at least a five percent downpayment. Therefore, the no and very low downpayment loan guarantee of the VA has always been beyond the capability of a private insurer.

Guaranty Amount and Settlement Process

Section 4 of the H.R. 2672 would amend present law to provide for a maximum guaranty amount of 30 percent of the loan, to be paid

to a lender on a VA home loan upon default. This would be a change from the current system where the lender is paid 60 percent of the loan amount or \$27,500, whichever is lower.

This provision of the Bill, if adopted, would bring the VA loan guarantee program more in line with conventional loan markets in two important ways. First, it would base the insurance claim on an amount that is a percent of the loan, rather than on a set dollar amount. Second, it would preserve the option of the VA of either paying a percentage amount and leaving title to the property with the lender or taking title to the property.

The private mortgage insurance industry conducts its business very similarly. Generally speaking upon receipt of a claim an MIC will pay the entire claim to the lender and take title to the property or pay 20 to 25 percent of the total claim, depending on the policy. In the vast majority of instances today the MIC exercises the option of paying the percentage portion of the loan amount and leaving title with the lender. This claim payment, in conjunction with the proceeds from the sale of the property, are designed to typically make the lender whole if the lender had properly underwritten the loan at origination.

As a result of these practices of MICs, lenders are accustomed to conducting business where the insurer exercise one of the two options described above and where one of those options means that the claims settlement will consist of a set percentage. Lenders, therefore, would not have to significantly alter their business

practices if the VA guaranty amount becomes 30 percent of loan. In addition and more importantly, the 30 percent maximum guaranty will offer veterans in all areas of the country, even those located in very high cost areas, the opportunity to get a VA loan. MICs serve homebuyers across the country and in all types of markets using this claims settlement system.

From an operational perspective, the optional settlement process for handling claims and the formula developed for determining which option to use should continue to minimize losses to the VA and to bring its operations more in line with the private sector. Under the present system, the VA determines its option by looking at whether the cost of foreclosing on a particular home exceeds the VA's minimum guarantee. This is very similar to the way in which MICs determine which option they will exercise. In an effort to minimize their losses, generally MICs will take title to the property only in markets where property values are rising significantly and where the resale value will be enough to exceed their costs. In all other situations the MIC will pay the lender 20 to 25 percent of the loan amount.

The private mortgage insurance industry has found that the simple fact that this option exists for the insurer, places pressure for the lender to assume the role of a coinsurer and to underwrite the loan so as to minimize the likelihood of foreclosure. The concept of coinsurance historically been a very important part of the relationship between the MIC and the lender. The MIC has always been just a review underwriter, while the lender has been the primary underwriter of the loan. We have depended on the lender,

who has first-hand contact with the borrower, to minimize the risk of the loan.

With the expansion of the secondary market, however, the mortgage insurer often finds that the lender does not perceive the consequence of poor underwriting done for loans originated for sale to be the same as it would for loans the lender keeps in portfolio. It is becoming common for lenders during the origination process to be primarily concerned with whether the loan meets the insurer's requirements and whether the loan, along with its servicing, can be sold in the secondary market. When the income from origination of the loan is more important to the lender than the long term yield of the asset, the risk sharing between insurers and lenders is reduced.

MICA is concerned with the erosion of the coinsurance principle. Not only does it mean an increase in the amount of claims insurers must pay but it means families are forced to leave their homes because they could not afford their home over the life of the loan. Last year the companies that comprise the membership of MICA incurred losses that are paid as benefits to lenders in the range of \$1.2 billion. While the claims that have been paid to lenders and secondary market investors have provided very positive financial benefits, they also represent the financial distress of borrowers.

Similarly the VA paid \$365.6 million in claims last fiscal year. Like those claims paid by private insurers, they represent financial benefits to lenders and investors but they also represent families who have lost their homes. Increasing the lenders'

potential for loss in the case of default perhaps will encourage them to become coinsurers and work toward not simply increasing their volume of loans, but towards ensuring that consumers purchase homes they can afford.

Default Assistance

Section 5 of the Bill requires the VA to take steps to notify and counsel veterans who are in default about alternatives to foreclosures. It also encourages lenders to advise defaulting veterans about such alternatives. The lending process is a continuum that does not end when the loan is closed but must involve good servicing to the veteran over the entire life of the mortgage. Lenders that refuse to recognize this responsibility should not make VA loans.

MICA applauds Congress in its efforts to provide veterans with financial counseling. MICs have worked with counseling services and have found that, on a case-by-case basis that they can be very successful.

From our industry's experience MICA believes that the VA can minimize its losses by contacting borrowers directly and through encouraging lenders to do so. In fact, MICs have found such programs to be so successful that many have instituted their own counseling services. While an individual MI might operate its counseling and collection program differently, generally the program involves the MI and lender working together to avoid default. The MI contacts borrowers who are in default for a certain number of

months to ascertain the problem and to suggest repayment possibilities. In some situations, a representative from an MI will meet with the borrower to discuss his or her personal finances. The counselor will evaluate the borrower's total obligations and identify changes that could be made in spending patterns. The counselor will then recommend a course of action and, with the lender's approval, establish a repayment plan. In some situations the MI may advance funds to the borrower to bring the account current.

Assumptions

Section 11 of the Bill requires that, when a VA loan is assumed, a new credit underwriting be done on the borrower assuming the loan if the selling veteran wishes to be released from liability. With this amendment, Congress again is attempting to minimize losses to the VA and thus make more funds available to veterans wishing to purchase a home.

This provision like the others discussed above would bring VA loans more in line with the private sector. A due-on-sale clause is contained in virtually every conventional loan today for two primary reasons. First of all, lenders and insurers find that in today's volatile financial markets, the flexibility to change the interest rate must exist when the house is sold. Secondly, they know that at the very foundation of a sound lending and mortgage insurance operation is the principle that each loan and each borrower must be examined and underwritten separately. They realize that financing is not part of the permanent structure and that there is no

justification for allowing the original borrower to capitalize and gain a windfall profit if the market rate on mortgages has increased.

With this amendment Congress is acknowledging one of the two problems with assumable loans mentioned above. A determination must be made of the credit worthiness of the individual assuming the loan in order to adequately insure that the loan will be repaid. This is essential to minimizing the risk to the insurer.

Thank you for this opportunity to comment. I will be happy to expand on any point upon your request.



CALIFORNIA ASSOCIATION OF REALTORS*

EXECUTIVE OFFICES • 525 SOUTH WILLOW AVENUE • LOS ANGELES, CALIFORNIA 90005 • (213) 739-8200

JACK PAULSON

June 19, 1987

Ms. Anne Caldwell
Subcommittee on Housing and
Memorial Affairs of the House
Veterans' Affairs Committee
2443 Rayburn House Office Building
Washington, D.C. 20515

Dear Ms. Caldwell:

The California Association of REALTORS respectfully submits the attached testimony, in conjunction with that submitted by the National Association of REALTORS, to the Subcommittee on Housing and Memorial Affairs Committee. We request that this testimony on current budget proposals for the VA program be made a part of the hearing record of June 23, 1987.

Thank you very much for the opportunity to express our concerns on these important issues. Should you require any further information, please do not hesitate to contact Joel Singer at (213) 739-8269.

Sincerely,

Jack Paulson
President
California Association of REALTORS

JP:lbe

Written Testimony
 Subcommittee on Housing and Memorial Affairs
 of the Committee on Veterans' Affairs
 House of Representatives
 Submitted by Jack Paulson, President
 California Association of REALTORS
 June 23, 1987

As President of the California Association of REALTORS --a statewide trade association representing 115,000 real estate licensees in California--I appreciate the opportunity to present our perspectives on the proposed draft legislation before the Subcommittee today. This commentary is submitted in conjunction with, and in support of, the testimony presented by the National Association of REALTORS . The business activities of our membership involve the brokerage of real property as well as assisting buyers in the process of locating financing sources. It is this business thrust of our members and their involvement with government housing agencies such as the Veterans Administration that motivates C.A.R.'s active interest in these issues of vital concern to California's homebuying veterans.

I. Introduction

Nineteen-eighty-six proved to be one of the most turbulent years that the VA has experienced since its inception in 1944. Lending activity for FY 1986 reached record levels as the agency guaranteed 307,747 loans nationwide, of which approximately \$38,000 were made in California. The total dollar volume came to \$22 billion, up 194 percent from FY 1985. In the current fiscal year, demand for VA loans has remained strong, spurred by continued low interest rates and more restrictive underwriting criteria in the conventional market. However, just as the agency has experienced a surge in demand for its services, it has concomitantly been attacked by forces seeking to reduce the federal government's historic commitment to provide affordable mortgage credit for veterans. C.A.R. is deeply concerned over efforts to restrict or reduce the agency's ability to assist veterans seeking housing. The VA is vital in providing veterans with much needed housing assistance; however, recent staffing shortages and administrative procedures have served to restrict the effectiveness of VA home mortgage financing in the California marketplace.

In conjunction with the FHA home mortgage program, the VA has played an important role in assisting eligible California homebuyers. As private lenders and secondary market investors have substantially tightened underwriting guidelines over the past two years, the FHA and VA programs have stepped in to provide the only viable source of affordable mortgage credit for many low-income home purchasers. According to C.A.R. data, the FHA/VA share of newly-originated first mortgages in California increased from 16 percent in 1984, to 20 percent in 1985, to nearly one-quarter in 1986, despite the statutory loan limits that restrict the usage of

FHA and VA mortgages in the high cost California market. Estimates place the California share of the total amount of VA loans originated nationally at 13 percent.

The state's high home prices have consistently outpaced national home prices for the past 15 years, and by the end of 1986, the median price for a house in California was 60 percent higher than the nationwide median. These high home prices have sharply boosted income and downpayment requirements, making homeownership extremely difficult for California veterans, particularly first-time buyers. In 1986, fully 56 percent of all newly-originated VA loans in California went to first-time buyers, with nearly 40 percent of VA borrowers relying on the program's no-downpayment feature. The median loan-to-value ratio on new VA loans in 1986 was nearly 97 percent. VA borrowers also took advantage of interest rates that were 0.75 percentage points lower than on conventional loans. In addition to the higher cash demands brought on by the state's high home prices, the typical veteran homebuyer has a lower cash inflow. In 1986, the median income for the VA buyers in California was \$13,000 less than for buyers using conventional financing. This difference is larger today. As a result of California's increasing home prices, the necessary median household income for a 1987 homebuyer using conventional financing in California is significantly higher than that found in 1986.

Newly-Originated Conventional vs. VA Mortgages: 1986

Characteristic	Conventional	VA
Median Interest Rate	10.25%	9.5%
Median Loan Amount	\$118,020	\$103,000
Median Sales Price	\$149,997	\$107,000
Median Downpayment	\$ 30,800	\$ 5,000
Median Loan-to-Value Ratio	79.9%	96.6%
Proportion of First-Time Buyers	34.5%	56.1%
Median Annual Household Income	\$ 52,900	\$ 40,000

Source: C.A.R. 1986 Housing Finance Survey

These statistics clearly indicate the vital role that the VA loan guarantee program serves in assisting California's veterans in the achievement of their dreams of homeownership. Given the fundamental importance of the VA program, the Association would like to take this opportunity to comment on the proposed legislation before the Subcommittee.

II. VA Loan Origination Fee

C.A.R. strongly endorses Section 3 of the legislation which would extend the present 1 percent origination fee imposed on VA-guaranteed loans for three years. The current one percent origination fee for VA loans technically sunsets at the end of the current fiscal year. As the Committee is aware, a key element in the Administration's budget "blueprint" for FY 1988 is a proposal to impose sharply higher guaranty fees on the Veterans Administration's loan guaranty program. The Administration's budget proposes legislation that would more than double the guaranty fee in FY 1988 to 2.5 percent--one half percent higher than the Administration's budget proposal last year. This provision is included in Section 3 of S.920. Although current budget documents do not call for further out-year increases, C.A.R. expects that future proposals could increase this fee to the FHA level of 3.8 percent by 1990.

This fee increase would negatively impact more than 40,000 veteran homebuyers in California that will depend upon the VA to achieve the dream of homeownership in 1988. For the typical California veteran the guarantee fee increase would amount to over \$1,500, forcing monthly payments up by \$12 or more. The resulting "tax" on California's veteran homebuyers would amount to approximately \$65 million in FY 1988, based on VA's projection of loan activity and assuming California maintains its market share of VA loans at 12.5 percent. The impact of the increase would be to further squeeze many marginally qualified veterans out of the market. For those veterans remaining in the market, the fee increase will enlarge their debt burden if the fee is financed or force them to go into debt with less cash reserves for emergencies if they choose to pay this increase in cash.

In addition to the practical reasons for opposing the proposed fee hike, C.A.R. adamantly opposes any attempts to increase the fee beyond its current level on a philosophical basis as well. Given this program's social importance, we view this proposal as yet another attempt to erode the nation's commitment to homeownership. The VA program, like the FHA, was instituted to provide the nation's returning veteran with housing opportunities, and not with a profit motive to provide income to the United States government. Thus, C.A.R. endorses a long term extension of the current 1 percent guarantee fee. Such an extension would reduce the uncertainty that a veteran planning to buy a home faces when calculating the financial strain of homeownership. Moreover, it would have the positive ramifications of making the VA less subject to political forces regularly seeking fee increases that only minimally enhance the Administration's deficit reduction priorities. The VA program is an entitlement program, one that was conceived in the spirit of recognition, honoring the sacrifices of our nation's veterans. It should not be used as a tool to help reduce the budget deficit. As such, C.A.R. strongly endorses legislation such as H.C.R. 79, and the draft bill before the

Subcommittee which would serve to signify Congressional opposition to any proposal to increase the VA loan guaranty fee.

III. Elimination of Loan Guaranty Ceiling and Imposition of 30 Percent Uniform Guaranty

As contained in Section 4 of the draft measure, C.A.R. does not support the change from a loan guaranty ceiling to a uniform guaranty of 30 percent for single-family, condominiums, and manufactured housing VA-guaranteed mortgages. As with many of the proposed changes to the VA loan guarantee program, C.A.R. feels that switching to a uniform guaranty limit is unnecessary and unwarranted.

We support, instead, proposals to increase the VA loan guaranty ceiling such as that contained in the Senate's veterans bill, S. 9. Of all the features of the various veterans' related measures currently before Congress, probably none is as important as this to both our membership and the nation's veterans. If enacted, S. 9 would allow for an increase in the VA loan guaranty limit from the present level of \$27,500 to \$36,000. The guaranty limit has not been changed since October of 1980; in the six years that have passed since 1980, the median sales price of existing single-family homes has risen 29 percent nationally and 34 percent in California. The increase to \$36,000 would thus roughly compensate veteran homebuyers for the inflation that has occurred since 1980.

The increase in the VA loan guaranty limit, as contained in the Senate bill, would dramatically improve the effectiveness of the VA program. This would be especially true for high cost areas such as California. At present, just over 30 percent of existing homes sold in California are priced near or below the current no-downpayment VA loan maximum of \$110,000. The proposed increase in the VA loan guaranty amount to \$36,000 would boost the maximum VA loan amount to \$144,000. This mortgage amount increase would instantly open up over one-half of the California resale home market to the state's veterans. Simply put, the loan guaranty increase contained in S. 9 would open up 20 percent more of the California housing market to the state's veterans. More importantly it would provide veterans with meaningful access to housing in the state's costly urban areas. For example, in San Francisco in 1986, the \$36,000 guarantee would allow the VA program to serve approximately 38 percent of the areas resale market. With the \$100,000 cap, only 12.5 percent of homes sold in 1986 qualified for no downpayment VA financing. In Orange County, 47.5 percent of residences would be available to veteran homebuyer with the new, higher cap. With the lower cap, only 20 percent of homes qualified for no downpayment VA financing.

C.A.R. feels that there is little, if any, evidence that supports the conclusion that the VA loan guaranty ceiling has led to market imperfections. Instead, the VA program has worked fluidly (except in times of extreme demand) and has served veterans well causing marketplace problems.

The VA loan guaranty program allows veterans to qualify for mortgage funds with little, or no, downpayment while simultaneously exposing lenders to little risk. Assuming the maximum loan amount four times the loan guaranty ceiling, the VA's guaranty works much like private mortgage insurance would and thus, in reality, undue risk exposure to lenders is a controllable problem. For most properties and regions of the country, the VA guarantee, or assurance, is quite compatible with private insurance lenders require on similar conventional, low-downpayment loans.

Our position is that the VA loan guaranty program has worked adequately with the only questions being those of staff and equipment shortcomings. There is no need to change the operation of the program, but there is a pressing need to raise the loan ceiling limit. It has not been changed for seven years and is lagging far behind inflation would. In order to give the current nation's veterans a fair shake, provisions increasing the loan guaranty ceiling should be instituted.

IV. New Underwriting Requirements for Assumptions

Section II of the draft legislation would impose new underwriting requirements on those buyers who wish to assume VA-guaranteed loans. C.A.R. does not support the creation of any such new requirements.

As with FHA-insured mortgages, the easy assumability of VA-guaranteed loans has been a key feature of the program since its inception. The largely unencumbered assumability provisions of VA loans have served to increase both the attractiveness and marketability of such loans. In periods of rising interest rates (such as we've seen lately), the relatively free assumability of VA-guaranteed mortgages has often enhanced the value of the home. The assumptor (buyer of the property) obviously benefits when he or she can assume the home below current market interest rates. Thus, assumability translates into a benefit for the owner (in this case, the nation's veterans) by increasing the marketability and value of his or her home.

By seeking to impose new requirements on the assumability of VA loans, it must be presumed that a substantial number of VA loan defaults have occurred as a result of assumptions. We have been provided few facts to show that this is the case. Since its inception, the VA program, as currently administered, has worked more than adequately. There seems little reason to change a benefit program that has worked successfully for over 40 years. It should be noted that increased assumability requirements may lead to increased VA foreclosure ratios. Property owners having difficulty repaying their mortgage may not be able to "get out from under" their debt burden as quickly as they could have with the current assumability guidelines. The easy assumability of VA-guaranteed loans is an attractive provision for buyers and sellers alike and in no way should the free assumption of VA-guaranteed loans be mitigated.

V. Conclusion

In summation, the California Association of REALTORS strongly supports the continued unrestricted operation of the VA Home Loan Guaranty Program and urges the Housing Subcommittee and the full Veterans' Affairs Committee to safeguard and preserve the program that has enabled millions of America's veterans to attain their dreams of homeownership. We thank you for the opportunity to submit this statement. If you have any questions concerning this testimony, please feel free to contact our Chief Economist, Joel Singer, at (213) 739-8269.



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(202) 834-9700

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STATEMENT OF
RICHARD WEIDMAN
DIRECTOR OF GOVERNMENT RELATIONS
VIETNAM VETERANS OF AMERICA
SUBMITTED FOR THE RECORD
on the
DRAFT "VETERANS' HOUSING REHABILITATION
and PROGRAM IMPROVEMENT ACT of 1987"
to the
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS AFFAIRS

JUNE 23, 1987

Vietnam Veterans of America (VVA), appreciates the opportunity to submit our views on the draft legislation entitled "Veterans Housing Rehabilitation and Program Improvement Act of 1987." In general, VVA is in favor of the general thrust of this draft legislation, as it seeks to halt the steady erosion of the VA Home Loan Guaranty Program through actions of the current Administration.

In regard to Section 2 of the proposed legislation, VVA is strongly in favor of ensuring that the Administration may not continue its attempt to stage a "fire sale." Further, it is proper and judicious to specifically ensure that sales are made only "with recourse," as that is the only way that fair value to the government will be achieved in such sales. It is worth noting that VA had to withdraw an offering earlier this year of sale of a part of its portfolio that was to be sold without recourse.

Vietnam Veterans of America favors keeping the loan origination fee (Section 3) at no greater than 1% for the next three years, and to suspend such fee when not necessary to keep the revolving fund solvent. VVA has consistently maintained that the VA Home Loan Guaranty Fund should remain what the Congress originally intended it to be, a vital readjustment program and not just another lending program.

In regard to the Guaranty Amount (Section 4), VVA favors removing the ceiling altogether. It is worth noting that the mean average loan under the VA Guaranty program in the Washington, DC Regional Office is well in excess of \$90,000, and that a straight flat percentage guaranty would allow for major regional differences in housing costs and eliminate the need for annual debates over the ceiling, which is really not a main issue.

In regard to Section 5, "Assistance Provided In Default," VVA favors this provision strongly. VVA has consistently urged the VA to move to assist veterans who are in default or in danger of slipping into default. While Section 5 is a good start, VVA would recommend that the Committee consider going further to, among

other measures, require VA to codify "Section F" of the VA Lenders Handbook, to give it force of law. The forbearance aspects of Section F (See Appendix) are routinely disregarded by lenders (even by those who have bothered to read it). Most veterans do not even know that it exists, because VA makes no concerted attempt to inform them.

In this light, it is unclear to VVA as to whether Section 6 would be a help or a hinderance in promoting more widespread exercise of forbearance to veterans in trouble with their loan. If this provision is intended to alleviate the "No Bid" crisis, it does not go far enough. It is clear to VVA that this Administration is engaged in an attempt to employ the use of "No Bid" to erode the confidence of the lending community in the VA Home Loan Guaranty Program and to cast an even greater "chilling effect" on no down payment loans, as a way of weakening the overall program. A requirement for a series of strict hurdles and justification for not acquiring properties is the key to maintaining this program as it successfully operated in the forty years prior to this Administration. It is well known that the only reason it worked as it has is that while there was only a formal 30% guaranty, VA acquired the property in 99% of uncured defaults until this Administration came into power. Vietnam Veterans of America recommends that the Committee consider requiring restoration of this sensible administrative practice by requiring it except in carefully circumscribed instances.

VVA favors institution of Direct Loans in Samoa and the redefinition of occupancy requirements as outlined in Section 7 and 8, the former because of the lack of private lenders and the later because it will clarify the intent of the Congress in regard to realistic veterans occupancy requirements.

The "Homeless Program" envisaged in Section 9 of the proposed legislation would in fact be a beneficial and social move that should help some homeless veterans and their families. This is a worthwhile attempt that is modest in scope, and relies on local

initiative to function. If the Veterans' Administration acts in good faith, this program could prove to be of significant value to some homeless veterans, while not affecting in any material way the sound management of the VA Home Loan Guaranty Property Management program. VVA particularly applauds the proposed coordination of this project with the Veterans Job Training Act (VJTA).

The Committee is to be particularly commended for seeking to secure release from liability when a veteran disposes of residential property purchased under a VA program (Section 11). VVA has received complaints for many years from veterans who had no idea that they were still held liable for property and payments which they had to all appearances properly acquitted themselves of. This provision should go far in remedying this problem.

The proposed "Mortgage Payment assistance" program (Section 12) could help some veterans who because of interruption of income, illness, or other extraordinary and temporary situation have fallen in arrears on their mortgage payments. This proposed program would help those veterans surmount that temporary difficulty and catch up on their incurred obligations. VVA has two basic reservations in regard to this program. First, we can find no allowance for renegotiating the length or the terms of the primary loan in this proposal. The problem for many veterans is that the job they lost that caused them to fall into default is gone forever. Typically it is due to a plant closing and the job was a relatively high paying manufacturing job. Such a level of remuneration is often not available when the veteran becomes employed again, and so will not be able to maintain the previous level of mortgage payments even after this bridge over the immediate problem. There must be some mechanism to address renegotiating the loan for this program to be helpful to many veterans.

Second, Vietnam Veterans of America takes strong exception to subparts (e) and (f) of Section 12. What these two parts do is strip the veteran of any redress for any clerical or computer error or any artifice or caprice that the government may visit upon

him or her. Many veterans are currently being abused and deprived of basic rights to defend themselves in similar "debt collection" proceedings, and VVA urges the Committee in the strongest possible terms not to validate this reckless arrogation of power and denial of due process. VVA asks that you eliminate subparts (e) and (f) altogether.

VVA favors Section 13, as it should provide more uniform and proper operation of the process of approving appraisers and reviewing their reports.

VVA also favors approval of Section 14, which would allow a veteran to convey property without interest or foreclosure liability. This section would properly address the needs of some veterans in default and reaffirm on a national basis the principles set forth in United States District Court in "U.S. vs. Vallejo" that protect the veteran from additional liability where the veteran is acting in good faith to convey the property to VA in lieu of foreclosure.

Vietnam Veterans of America wishes to thank the Committee for this opportunity to submit our views. VVA also wishes to commend the Chair and the Committee for your diligent efforts to safeguard and strengthen the VA Home Loan Guaranty program.

Office of the
Administrator
of Veterans Affairs

Washington DC 20420



Veterans
Administration

AUG 20 1987

Honorable G. V. (Sonny) Montgomery
Chairman, Committee on Veterans'
Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Enclosed please find the responses to the questions raised
by Representative Dan Burton which were submitted by
Chairwoman Marcy Kaptur following the June 23, 1987, hearing
on H.R. 2672. I apologize for the delay in providing these
responses.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Tom Turnage', written over a horizontal line.

THOMAS K. TURNAGE
Administrator

Enclosure

cc: Chairwoman Marcy Kaptur
Subcommittee on Housing and
Memorial Affairs

Representative Dan Burton

WRITTEN COMMITTEE QUESTIONS AND THEIR RESPONSE

QUESTIONS OF HONORABLE DAN BURTON OF INDIANA
TO THE VETERANS ADMINISTRATION
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
JUNE 23, 1987

Question 1: What has been VA's total experience in selling vendee accounts? Have you made money or lost money over the years?

Answer: The VA has been selling vendee loans on a regular basis for 25 years. The proceeds of these sales are credited to the Loan Guaranty Revolving Fund and are immediately available to meet ongoing costs of program operations. In doing so VA converts loan assets to cash and recovers a major portion of funds expended to acquire properties incident to foreclosure of guaranteed loans. Frequent loan sales provide a steady, reliable, source of funding for the home loan program. We believe that this policy has been beneficial to the government.

Over the past five fiscal years, VA has sold loans at a net discount of approximately five percent. This experience reflects the historical record of agency loan sales, i.e., VA can expect some discount over time selling these accounts. However, the price at which VA is able to sell its loan portfolio depends upon a number of market factors, including the current market interest rates and the interest rate that the loans being sold bear.

In addition, VA bears costs associated with vendee loans that go into default. When loans go into default, because these loans are sold with recourse, the VA must repurchase these loans. Approximately 15% of all vendee loans must be repurchased. In 1986 the VA repurchased over 4,300 vendee loans at a cost of \$157 million.

It is because of the long term cost of recourse agreements that the Administration is pursuing nonrecourse sales. The intent of nonrecourse sales is to take losses on vendee loans up front, rather than deferring them into the future. In this way Congress and the Executive branch can make decisions regarding the program based on the true costs of its operation.

Question 2: If VA predicted solvency for the Loan Guaranty Revolving Fund for a given year and then suspended the 1% funding fee and the prediction proved to be wrong, what would be the consequence?

Answer: VA projects no year in which a 1% fee would be adequate to cover expected costs as evidenced by the \$389 million appropriation request pending for 1988. However, were this to occur the VA would have to request a supplemental appropriation to offset the shortfall in the Loan Guaranty Revolving Fund.

Question 3: Have you estimated the cost of increased servicing of loans as indicated by the draft bill? Can you give us an estimate of such increase?

Answer: There would not be significant additional costs (FTE) associated with this provision of the proposed bill. VA already tries to contact all veterans reported in default and to take appropriate servicing action. VA objects to this provision on policy grounds. Alternatives to foreclosure such as refunding and accepting deeds in lieu should be at the option of the Administrator.

Question 4: As foreclosures take place, what percentage of homes end up in VA's hands as compared to those which end up with lenders?

Answer: During the first half of FY 1987, 75 per cent of GI loan foreclosures resulted in property conveyance to VA. In the remaining 25 per cent, property was required by the loan holder or a third party bidder.

Question 5: The Congressional Research Service estimates that, if the guaranty on GI loans were to be reduced, a smaller number might be the result. Do you have any estimates in this regard? What are your comments?

Answer: We do not have official projections of likely loan volume with a straight 30 percent guaranty. There is no doubt that it would reduce VA acquisitions because VA's liability on lower valued properties would be lessened. However, we are certain that this provision would hurt lower income veterans purchasing less expensive housing. During the quarter ending March 31, 1987, 29.3 percent of all home loans guaranteed were for loan amounts under \$55,000. With a full entitlement of \$27,500, (which all first time home buying veterans have), lenders were provided at least 50 percent guaranty on these loans. This is adequate protection to lenders who know that foreclosures on GI loans are heavily concentrated at the lower loan amounts. They are confident that VA will acquire properties, in most cases, in the event of foreclosure rather than pay such a large claim. However, with only a 30 percent guaranty the risks to the lender increase considerably because of the likelihood that VA will not acquire properties in many cases. The end result will be that lenders will be reluctant to make loans where the guaranty has been reduced. On the other hand, lenders will be more willing to make GI loans above the \$92,000 level as the guaranty protection increases.

Question 6: Apparently VA thinks it unwise to discuss alternatives to foreclosure with veterans who are in default. Please elaborate on this matter. Is mere discussion of alternatives to foreclosure unwise?

Answer: VA emphasizes discussion of alternatives to foreclosure with delinquent veterans as part of our supplemental servicing activity. However, VA takes a personalized approach to supplemental servicing which focuses on the alternatives which appear most appropriate to each individual's situation. Initial emphasis is placed on determining whether the veteran has the ability to reinstate the account and, if so, working with the veteran and the lender to develop a reasonable repayment plan. This means of resolving loan defaults preserves the debtor-creditor relation between the borrower and lender, and may prevent Government outlays for claims or property acquisitions. Other alternatives, such as sale of the property, deed in lieu of foreclosure and refunding, are discussed when appropriate. Our statement of 6/23/87 on section 5 of H.R. 2672 only indicated opposition to a statutory requirement that the alternatives of deed in lieu of foreclosure and refunding be provided to each veteran. Such a requirement would serve no useful purpose when these alternatives were inappropriate, and could provide a basis for litigation which would delay necessary foreclosures and thereby increase costs to the Government.

Question 7: How much money will be received in a typical year by a 1% funding fee on the sale of foreclosed properties?

Answer: In FY 1986 VA established \$783.3 million in new vendee accounts collecting approximately \$7.8 million in funding fees. This can be considered a typical fiscal year in regard to vendee loan volume.

Question 8: Doesn't it make sense to let servicemen who have transferred refinanced old GI loans when interest rates go down? Doesn't this lessen the possibility of the government's future liability in case of foreclosure?

Answer: As we stated in our testimony we would not object to this proposal if it were limited to one-time use and the service member certified that they intend to reoccupy the property in the future. The main purpose of the VA loan guaranty program is to help veterans obtain housing for themselves and their family. To go beyond a one-time use of the refinancing benefit without occupancy or the intent to occupy in the future could change the nature of the program to that of an investment program.

Question 9: Apparently you have a problem with the language in Section 8(b) of the draft bill concerning servicemen and their families. Can you suggest improved language to the end that VA could support this idea?

Answer: Section 8(b), as written, provides that a person on active duty would satisfy the occupancy requirement if the spouse and all dependent children actually occupy the property. We try to be flexible when interpreting the occupancy requirement and in cases where the service member is on active duty at a distant location we look primarily to the occupancy of the spouse. The requirement that the spouse and all dependent children occupy the property could cause us to disapprove some loans that are currently being approved. This would include cases where a child was away attending school, was in a long-term medical care facility, or where a child of a prior marriage resided with a former spouse. Therefore, if the word "all" were deleted from the proposed Section 8(b) we would not object to this provision.

Question 10: Why is the rate of foreclosures on vendee accounts three times as high as on GI loans? Does this suggest that improvements in underwriting are necessary or does it suggest that you unload these properties as best you can to probable credit risks?

Answer: VA tends to acquire properties when and where economic activity slows and unemployment rises. Under these conditions, the population of highly qualified home buyers is often limited compared to the total number of properties available for purchase in the area. When VA considers a veteran's creditworthiness under the guaranteed loan program, risk of future liability is avoided by rejection of the veteran's loan application. When VA considers an applicant for vendee financing of the purchase of VA-owned property, a substantial financial liability has already been incurred through the acquisition of the property. In the past, VA balanced the risk of default by the vendee applicant against the risk of leaving the property on the market and subject to deterioration and vandalism while waiting for a more qualified purchaser. In general, underwriting of vendee loans was more liberal than that of guaranteed loans. Our vendee loan underwriting policy today, however, is similar to that applied to GI loan applicants. In addition, purchasers are sometimes investors rather than individuals who intend to occupy the property, as required by the guaranty program.

Question 11: If you sold vendee accounts only at par or above, you would continue to receive monthly payments on the unsold loans. How long would it take for these payments to equal the increased appropriation which would be required?

Answer: We would not expect to sell many loans at or above par. Only vendee loans which were above the existing market rate at the time would meet the provisions of this proposal. Historically a substantial majority of vendee loans have been sold at discount.

The FY 1988 budget submission requests an appropriation of \$389.9 million under existing legislation (one percent funding fee). It is likely that if Congress does not increase the funding fee, appropriations of this magnitude will be necessary every fiscal year. VA would have to hold a portfolio in excess of \$4 billion in current vendee loans at 10 percent interest to generate the \$400 million in revenue necessary to offset expected appropriations. Because some vendee loans go into default the actual size of the portfolio would have to be above \$5 billion, the equivalent of about 7 years of new loan production. Building and maintaining a portfolio of this size would be clearly uneconomical. VA would need a substantial increase in FTE to service these accounts. This is the amount necessary to cover just the appropriation amounts. However, in actuality the portfolio would have to be much bigger if VA did not sell loans because repayment would not only have to cover the annual \$400 million deficits projected under current policy, but would also have to cover \$700 to \$800 million in annual revenues from the sale of vendee loans. This would require a \$15 billion portfolio which would be enormously burdensome to manage and would require \$1 billion or more in annual appropriations for many years until that size of a portfolio could be attained.

Question 12: What number of loans in American Samoa are we talking about in this draft legislation?

Answer: We are uncertain as to what level of direct loan volume to expect under this proposal. However, we believe that direct loan demand would be limited, possibly less than 30 loans a year.



Mortgage Bankers Association of America

1125 Fifteenth Street, N.W.
Washington, D.C. 20005

Burton C. Wood
Senior Staff Vice President
and Legislative Counsel
202-861-6307

July 8, 1987

The Honorable Marcy Kaptur
Chairwoman
Subcommittee on Housing and Memorial Affairs
Committee on Veterans Affairs
U.S. House of Representatives
Washington, D.C. 20515

Dear Madam Chairwoman:

On June 26, you asked the Mortgage Bankers Association of America to respond to questions submitted by you and the Honorable Dan Burton in connection with the June 23 hearing held by the Subcommittee on HR 2672, the "Veterans' Housing and Rehabilitation and Program Improvement Act of 1987."

I am pleased to respond to your request.

Questions submitted by the Honorable Marcy Kaptur:

1. Question: "On April 22, you (MBA) asked us (the Congress) to consider legislation which would exclude the accrual of interest for purposes of the no-bid calculation. You stated that if the VA were to do this in cases where foreclosure was delayed due to circumstances beyond the control of the lender and the VA, you would be willing to forfeit the right to be reimbursed for such interest if the VA acquired the property. You oppose a provision in the bill which would do this in instances where the delays are caused by the VA or if the lender exercises forbearance at the request of VA. Are you departing from your original position or do you object because of technical difficulties with the drafting of the bill which we could work out?"

Answer: MBA is not departing from its original position. In our testimony on April 22, MBA urged legislative changes that would decrease the number of no-bids that occur solely as a result of interest accrued during the period that a loan is in default before a liquidation sale. We enumerated three cases in which interest should cease to accrue for purposes of the no-bid calculation, but in only one of those cases would the lenders forfeit the right to be reimbursed for the interest. MBA stated that only in cases of delays beyond the control of the Veterans Administration (VA) would lenders be willing to forfeit the right to be reimbursed for interest that ceases to accrue for purposes of the no-bid calculation.

MBA stated that the first case where interest should cease to accrue is when the lender is ready, willing, and able to foreclose and the delays in completing foreclosure are caused by the VA. The VA should bear the cost of such delays, e.g., the lender should be reimbursed for the interest if the VA acquires the property.

At the lender's option, interest should also cease to accrue in cases where foreclosure is delayed by circumstances beyond the control of both the lender and the VA, such as bankruptcy. Lenders would bear the cost of these unavoidable delays and

would forfeit the right to be reimbursed for such interest if the VA acquires the property.

The last case is where the lender forbears at the request of the VA but foreclosure is not avoided. Interest should not accrue for the no-bid calculation but should be reimbursed by the VA if the VA acquires the property. Currently, interest accrued during such a forbearance period is not reimbursed by the VA. (For your information, attached are pages 12 and 13 from the April 22, 1987, testimony.)

As we stated in our June 23 testimony on HR 2672, MBA objects to the amendment that would change the definition of "total indebtedness" used in cases of foreclosure. MBA has consistently urged that the interest accrual problem be addressed in the no-bid formula, which is the calculation used to determine the claim payment. MBA would like to work with the Committee on the drafting of appropriate language to address this problem.

2. Question: "One of the reasons you state that this change in guaranty is unacceptable is that the lender of a VA guaranteed home loan does not control the property value. Won't the legislation change this by providing that the appraisal go directly to the lender who would then issue the certificate of reasonable value?"

Answer: MBA believes the 30 percent guaranty is unacceptable for several reasons, one of which is that the VA loan is a high risk loan. As stated in our testimony, the fact that the VA determines the property value is only one of the factors making a VA loan a high risk loan. While HR 2672 would change this and provide some review of the appraised value by lenders, ~~it~~ does not address another factor affecting VA loans, which is the depressed market in areas, such as Houston, Texas. In those instances, no matter how accurate the appraisal was at the time of origination, the value of that property has dropped significantly (over 50 percent in some cases). Under the no-bid formula, the 30 percent guaranty is even less adequate than the current guaranty for an average VA loan in economically depressed areas where property values are depreciating. As explained in several examples on pages 7 and 8 of our June 23 testimony (see attached), the 30 percent guaranty would result in lenders facing more no-bids. The specter of a no-bid being a more likely outcome makes a VA loan an even riskier loan.

3. Question: "Last year, you stated before the Subcommittee that the VA's experience with foreclosures was consistent with that which was occurring in the marketplace. Today, you state that the VA guaranteed loan is a high risk loan. What has the VA's tighter underwriting criteria accomplished since last fall?"

Answer: The impact of the VA's tighter underwriting criteria in all likelihood will not be felt for several more years. Because of the long lead time involved in home financing, it will take a while before the effect of underwriting changes are felt. The loans that are currently going into foreclosure were underwritten before last fall's tighter underwriting criteria were implemented.

MBA would like to point out that tighter underwriting and improved servicing are not the solutions to a problem created by a market that, subsequent to the loan closing, has seriously deteriorated. In some areas, 60 percent of foreclosures are now resulting in no-bids. While we commend the VA for taking these actions last year, tighter underwriting alone is not going to help these economically distressed areas.

4. Question: "In regard to assumptions of loans, your recommendation that the VA advise veterans of their release of liability entitlement is nothing more than what they do now. However, it is just not working. You do recommend that underwriting of all purchasers assuming VA loans be mandatory for assumptions that occur in the first year of mortgage. Since FHA is doing this for loans that are less than two years old, would you therefore support a 3-year provision since most foreclosures occur within three years of origination?"

Answer: MBA recommends that the VA step up its efforts to educate veterans about securing releases from liability when properties are transferred. Congress should provide assistance to the VA to help attack the problem directly rather than create an impediment to assumptions of VA loans.

Documentation indicates that the only foreclosure problem with assumptions of VA loans occurs shortly after the loan is originated, e.g., assumption within the first year. Therefore, MBA believes that a one-year requirement for new underwriting would address the problem. However, a two-year underwriting requirement for assumptions on VA loans would be consistent with Federal Housing Administration (FHA) practices and provide standardization.

5. Question: "I note that the Mortgage Bankers, Realtors, and Homebuilders all support the use of ARMs. You state that if we extend adjustable rate mortgages to the VA program that more veterans will be able to buy homes. Yet, the majority of veterans organizations consistently testify against this. Why do you think this is?"

Answer: MBA can only speculate about the reasons for veterans organizations' opposition to adjustable rate mortgages (ARMs). ARMs are an accepted financing tool in the conventional mortgage marketplace and their availability in FHA financing is being expanded. Most ARMs now have safeguards that protect consumers by limiting annual and life of the loan interest rate adjustments. Perhaps the veterans groups are not aware of the changes that have taken place in ARM programs to eliminate problems that existed in the early eighties. MBA recommends that the VA adopt the FHA limits on interest rate adjustments which have been proven to be adequate safeguards. The FHA-ARM has been very popular with consumers. In fact, the 10 percent volume limitation has been reached for the FHA-ARM program in 1985 and will shortly be reached this year. While ARMs are not the appropriate financing vehicle for every consumer, they are a good deal particularly for borrowers who are transitory and do not plan to occupy a home for more than a few years, as well as for young borrowers who anticipate strong salary growth. It is important that consumers be educated when choosing an ARM product and MBA has taken a lead role in providing an education brochure, which is attached.

Questions submitted by the Honorable Dan Burton:

1. Question: "Just what happens to lenders under the current 'no-bid' situation? How do they dispose of property? Are they good at it?"

Answer: A no-bid results only when the debt exceeds the net value of the property by more than the guaranty amount. In these cases, lenders are paid the guaranty amount by the VA and are left with the properties. As a practical matter, under the no-bid formula, the difference between the debt and the net value of the property is greater on the properties acquired by the lender than on those properties acquired by the VA. Because lenders are left with properties whose value, when added to the

guaranty amount, is insufficient to recoup the amount of the outstanding debt, lenders suffer losses equal to the shortfall. Lenders suffered losses of \$86 million in 1986. Simply put, the no-bid formula leaves the least desirable properties to the lender, while the VA acquires the more marketable properties.

Lenders typically dispose of properties by listing them with real estate brokers. Other disposition methods include auction sales and using real estate management companies. It is important to note that most of these properties are located in economically depressed areas where there are thousands of homes on the market owned by FHA, VA, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation as well, which further depresses prices.

Most lenders are not particularly adept at property disposition because the industry is not designed for this task. The lending or financing business is vastly different from marketing real estate.

2. Question: "Referring to page 8 of your testimony, are you suggesting that a 50 percent ratio might be acceptable to the lending industry?"

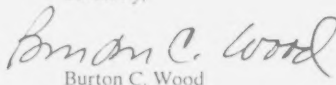
Answer: MBA supports the current guaranty mechanism and an increase in the maximum guaranty amount to \$36,000 as introduced in the Senate by Senator Alan Cranston in S 9, the "Service Disabled-Veterans Improvement Act of 1987." We only offered the 50 percent criteria to indicate what would be necessary under this process.

3. Question: "On page 9 of your testimony, you state that the VA is the only entity in a position to advise the veteran about liability on a loan and ways to reduce it. Would you please elaborate?"

Answer: Lenders, as part of their servicing and collection efforts, counsel veterans in an attempt to help them bring delinquent loans current. However, the lender has few available alternatives to foreclosure on a seriously delinquent loan and no ability to reduce the veteran's liability to the VA after foreclosure has occurred. Only the VA is in a position to know whether particular veterans are eligible for refunding, deeds-in-lieu of foreclosure or any other methods of reducing the veteran's liability to the Government.

I hope these responses address your concerns. Please let me know if I can be of further assistance.

Sincerely,


Burton C. Wood

Enclosures

July 8, 1987

Secondary Market Considerations
and the
Proposed 30 Percent Guaranty

MBA would like to take this opportunity to comment on the role of the secondary mortgage market, in particular the Government National Mortgage Association (GNMA), and the risk associated with VA home loans. Currently, over 98 percent of VA loans are pooled in GNMA securities. There appeared to be some confusion at the June 23 hearing about the role of GNMA and its impact on lenders' risk with regard to the proposed 30 percent guaranty. The 30 percent guaranty is unacceptable because it does not provide adequate coverage for loans at the lower end of the homeownership scale. The lender bears the risk of default, foreclosure and a no-bid on VA loans. Selling the VA loan to an investor, e.g., putting it in a pool of mortgages that backs a GNMA mortgage-backed security (MBS), never relieves the lender of this risk. The lender is not protected by GNMA from foreclosure costs and pass-through costs. If the veteran defaults, the lender becomes liable to the investor for the principal and interest. If the loan goes into foreclosure and there is a no-bid with a \$14,000 to \$16,000 additional loss beyond the guaranty amount, the lender, not GNMA, shoulders the costs.

It is important to know that the GNMA guaranty runs only to the MBS investor and then only in cases when the lender defaults. This happens very rarely. Over the years, GNMA has had to pay claims on only one-thousandth of 1 percent of its contingent liability on the securities.

Currently, there is a cap on the loan amount for VA loans in GNMA pools. It is \$110,000, or 4 times the \$27,500 guaranty, for no downpayment loans. The maximum loan limit is \$135,000. It is our understanding that consideration is being given at GNMA to use FHA loan limits if the 30 percent guaranty is enacted. These limits can only reach \$90,000 and would severely limit the housing choices of veteran homebuyers.



1125 Fifteenth Street, N.W.
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202-861-6500

Mortgage Bankers Association of America

STATEMENT OF

THOMAS M. FRENCH, JR.
CHAIRMAN OF THE BOARD
BANCOSTON MORTGAGE COMPANIES, INC.
JACKSONVILLE, FLORIDA

on behalf
of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

COMMITTEE ON VETERANS' AFFAIRS
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

Hearings on

The Veterans' Housing Rehabilitation and Program
Improvement Act of 1987

June 23, 1987

In Example 1, the net value of the property and the loss amount are the same in both cases, and it is the differential in the guaranty amount that determines whether the lender suffers increased losses.

Example 1:

	<u>Guaranty Amount</u>	
	<u>Current</u>	<u>Proposed</u>
Debt	\$70,000	\$70,000
Net Value of Property	<u>46,000</u>	<u>46,000</u>
Loss	\$24,000	\$24,000
Guaranty Amount	<u>27,500</u>	<u>21,000 (30%)</u>
Loss Is Less Than Guaranty Amount	\$ 3,500	Loss Is More Than Guaranty Amount \$ 3,000
	<u>VA Acquires</u>	<u>No-bid</u>

*June 23, 1987 Hearing

In Example 2, the figures show that a no-bid is created, and the lender's losses are increased, at a much higher net value under the proposed 30 percent guaranty amount. The net value of the property is \$6,500 higher than under the current system when a no-bid is created.

Example 2:

	<u>No-Bid Threshold</u>	
	<u>Current</u>	<u>Proposed</u>
Debt	\$70,000	\$70,000
Net Value of Property	<u>42,499</u>	<u>48,999</u>
Loss	\$27,501	\$21,001
Guaranty Amount	<u>27,500</u>	<u>21,000 (30%)</u>
	Loss Is More Than Guaranty Amount	Loss Is More Than Guaranty Amount
	<u>No-bid</u>	<u>No-bid</u>

For these reasons, MBA strongly opposes Section 4 of HR 2672. We urge that the current guaranty amount in 1803 (a) (1) be retained and the amount in 1810 (c) be increased from \$27,500 to \$36,000 as provided for in S 9, the "Service-Disabled Veterans Improvement Act of 1987," introduced on January 6, 1987, by Senator Alan Cranston, to reflect the increase in home sales prices. (See Exhibit 2.) In the proposed amendment where the guaranty amount would be a single flat percentage of the loan, the percentage would have to be at least 50 percent in order to serve the low end of the market and the high risk loan, which are the goals and objectives of the VA home loan guaranty program.

*June 23, 1987 Hearing

STATEMENT OF

RONNIE J. WYNN

PRESIDENT
COLONIAL MORTGAGE COMPANY
MONTGOMERY, ALABAMA

on behalf
of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

Oversight Hearings on

The Veterans Administration Home Loan Guaranty Program

April 22, 1987

the guaranty amount, the VA pays the lender the guaranty amount and does not acquire the property. The veteran's total indebtedness includes the unpaid principal plus the interest that has accrued on the loan as of the liquidation sale, or such earlier date following the expiration of a reasonable period for the sale to occur as the Administrator may specify. This provision should be clarified so that the amount of accrued interest due to delays in the foreclosure process does not increase the veteran's total indebtedness and in some cases turn the foreclosure into a no-bid.

Accrual of Interest. MBA urges several changes that would decrease the number of no-bids that occur solely as a result of interest accrued during the period that a loan is in default before the liquidation sale.

First, accrual of interest for purposes of the no-bid calculation should cease when the lender is ready, willing, and able to foreclose. However, such interest should be reimbursed by the VA as part of the lender's claim if the VA acquires the property. Costs of avoidable delays in foreclosing loans would be borne by the VA in cases where the VA is responsible for postponing the expeditious completion of foreclosure.

Second, in cases where a foreclosure is delayed due to circumstances beyond the control of both the lender and the VA, such as bankruptcy, lenders should have the option to request that the VA cease accruing interest for purposes of the no-bid calculation. In return, lenders would forfeit the right to be reimbursed for such interest if the VA acquires the property. Lenders would continue to be responsible for the cost of unavoidable delays due to bankruptcies and lengthy foreclosure statutes. However, in exchange for forfeiting a portion of the interest, lenders could avoid acquiring the property.

*April 22, 1987 Hearing

Third, interest that accrues during a period of forbearance by a lender should not be used in the no-bid calculation, but should be reimbursed by the VA as part of the lender's claim if the VA acquires the property. The VA frequently asks lenders to forbear when a loan goes into default, but the additional interest costs accrued during the forbearance period are not reimbursed by the VA. Since the VA requests forbearance, the VA should pay for the delay if the case turns into a foreclosure. Without such a policy, lenders will be more reluctant to forbear because of the potential of significant losses.

Foreclosure Authority. MBA urges Congressional action that would enable additional authority for VA foreclosures to be delegated to lenders. This would involve granting lenders the authority to (1) process the pre-foreclosure appraisal, (2) make the calculation necessary to determine whether the VA should acquire the property or pay the guaranty, and (3) determine the appropriate bidding instructions at the foreclosure sale.

Delays in issuing timely foreclosure bidding instructions, due to inadequate VA staffing, often turn potential VA acquisitions into VA no-bids because of the additional interest accrual and hurt everyone. Interest continues to accrue during the period of the delay. This costs the mortgage banker, who must continue to advance funds to investors. It costs the VA if they acquire the property, and it adds to the debt owed by the veteran who has defaulted, where VA seeks indemnification. The delegation of foreclosure authority to lenders would reduce these delays, without increasing costs to the federal government. Existing VA staff could be dedicated to monitoring and auditing lender performance to assure integrity of the system.

Timely Payment of VA Foreclosure Claims and Guaranty Amounts. The delays that hinder the issuance of foreclosure bidding instructions by the VA also extend to paying lenders the claim or guaranty amounts. As mentioned earlier, VA has the option of taking title to



National Association of Home Builders

15th and M Streets, N.W., Washington, D.C. 20005

Telex 89-2600

(202) 822-0200

July 7, 1987

Hon. Marcy Kaptur
Chairwoman
Subcommittee on Housing and
Memorial Affairs
U.S. House of Representatives
335 Cannon House Office Building
Washington, D.C. 20515

Dear Congresswoman Kaptur:

Attached is NAHB's response to the Subcommittee's question on ARMs following my testimony on June 23. Thank you for the opportunity to comment on this issue.

Sincerely yours,

David K. Hill
David K. Hill

DKH/et

Question: I note that the Mortgage Bankers, Realtors, and Homebuilders all support the use of ARMs. You state that if we extend adjustable rate mortgages to the VA program that more veterans will be able to buy homes. Yet, the majority of veterans organizations consistently testify against this. Why do you think this is?

Response of the National Association of Home Builders

Answer: Based upon the testimony of the veteran service organizations, opposition to the adjustable rate mortgage (ARM) stems from two factors: (1) fear that veterans incomes will not keep pace with possible increases in interest rates resulting in financial hardship for the veteran and increases in defaults and foreclosures, and (2) the negative experience of earlier poorly structured ARMs.

We have stressed that an ARM should be offered as an option to veteran homebuyers. An ARM's desirability will depend upon the level of interest rates, the length of time the borrower intends to remain in the home, the difference between interest rates for fixed and adjustable rate mortgages and whether rates are rising or falling. An ARM may not suit the needs of all borrowers. Marginal borrowers with little potential for increases in income may be better served by a fixed rate loan. For well established borrowers or young borrowers with good potential for increases in income, however, the ARM offers lower initial rates and an opportunity for decreases in the interest rate in a declining rate environment. In addition, an ARM can eliminate the need for refinancing and its associated expenses.

The FHA ARM, which we support, is conservatively structured to protect the borrower. Interest rate caps limit increases and decreases in the interest rate to one percentage point each year and five percentage points over the life of the loan. The legislation which created the FHA ARM mandated that the borrower be given a hypothetical payment schedule that displays the maximum potential increases in monthly payments over the first five years of the mortgage term. A similar provision should be considered for VA ARMs. Following is a worst case scenario for a \$70,000 ARM originated at an 8 percent interest rate structured with one percent and five percent payment caps.

Year	Loan Bal. Beginning of Year	Maximum Int. Rate	Monthly Payment Principal & Interest	Maximum Payment Increase (Dollars)	Maximum Payment Increase (%)
1	\$70,000	8%	\$513.63		
2	\$69,415	9%	\$562.37	\$48.74	9.5%
3	\$68,893	10%	\$611.74	\$49.37	8.8%
4	\$68,420	11%	\$661.58	\$49.84	8.1%
5	\$67,986	12%	\$711.77	\$50.19	7.6%
6	\$67,581	13%	\$762.20	\$50.43	7.1%

Like the FHA ARM, a VA ARM should not permit negative amortization, a phenomenon which occurred with many early ARMs when payments did not fully cover the interest due. Unpaid interest was added to the loan amount and the borrower lost ground with each passing month. In an era of low inflation, borrowers had little incentive to continue paying and foreclosures were very high. This type of loan has been thoroughly discredited and is now very rare. Experience with this type of loan and with mortgages with inadequate caps has colored some people's perception of ARMs.

The FHA ARM was implemented in 1984. It is too early to develop conclusions on default rates, however, no problems are yet apparent. As interest rates have risen recently, the demand for ARMs has increased substantially and both the House and Senate passed housing bills would allow a substantial increase in their use. Moreover, conventional lenders are actively marketing ARMs, an indication that their experience has been favorable.

The VA is the only major market participant that does not offer an ARM. Those veterans who believe that an ARM is the most advantageous form of financing for them, find that they cannot use a major VA benefit -- no downpayment, low cost financing. These veterans must seek conventional or FHA financing.



REALTOR®

NATIONAL ASSOCIATION OF REALTORS®

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August 27, 1987

The Honorable Marcy Kaptur
 Chairwoman
 Subcommittee on Housing and Memorial Affairs
 Committee on Veterans' Affairs
 U.S. House of Representatives
 Washington, D.C. 20515

Dear Madam Chairwoman:

On behalf of the NATIONAL ASSOCIATION OF REALTORS®, I am pleased to respond to your letter of June 26, 1987, requesting additional information concerning the Veterans Administration's home loan guaranty program. As requested by your letter, our response is provided on the attached pages.

I would like to thank you for the opportunity to provide additional information concerning the REALTOR® perspective to this very important program.

Please contact me again if the NATIONAL ASSOCIATION OF REALTORS® may offer any additional information.

Sincerely,

Stephen D. Driesler
 Senior Vice President



REALTOR® is a registered collective membership mark which may be used only by real estate professionals who are members of the NATIONAL ASSOCIATION OF REALTORS® and subscribe to its strict Code of Ethics.

QUESTION SUBMITTED BY THE HONORABLE MARCY KAPTUR
FOR THE HEARING BEFORE
THE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
REGARDING H.R. 2672
JUNE 23, 1987

"I note that the Mortgage Bankers, Realtors and Homebuilders all support the use of ARMs. You state that if we extend adjustable rate mortgages to the VA program that more veterans will be able to buy homes. Yet, the majority of veterans organizations consistently testify against this. Why do you think this is?"

The membership of the NATIONAL ASSOCIATION OF REALTORS® has not, to date, enacted policy in support of a proposal to authorize the Veterans Administration (VA) to guaranty adjustable rate mortgage (ARM) loans for qualified veterans. While the adjustable rate mortgage has proven to be a valuable financing instrument, the REALTOR® membership believes that before endorsing such a proposal, that it is crucial to more fully examine the unique position of the VA program, and the safeguards that would be needed to successfully allow the VA to guaranty adjustable rate mortgages.

The NATIONAL ASSOCIATION OF REALTORS® believes that the availability of the adjustable rate mortgage (ARM) product has provided an intelligent and beneficial home loan financing tool for many persons who might otherwise have been unable to afford to purchase their home, and also for persons seeking protection from an unstable interest rate environment. In examining ARM lending, the REALTOR® membership has been concerned that the special features of the ARM product be explained carefully to the loan applicant and used judiciously.

The REALTOR®'s have commenced to examine this issue with an evaluation of the necessary conditions for allowing the VA to guaranty adjustable rate mortgages. We are pleased to share the following concerns with the Committee:

Full Disclosure

The NATIONAL ASSOCIATION OF REALTORS® believes that it is important for potential homebuyers to fully understand all of the features of the adjustable rate mortgages they are considering purchasing. Consumer disclosure for ARM lending was the subject of considerable study by a specially charged REALTOR® TASK FORCE, in 1985. The Association concluded that disclosures for ARM loans must, in a meaningful way, provide the consumer with the necessary information to render an intelligent decision.

The NATIONAL ASSOCIATION OF REALTORS® has since pursued a policy that would require detailed disclosures to the loan applicant as to the features of adjustable rate mortgage lending, making certain that those disclosures are specific to the consumer's own application. The Association would recommend that the Committee examine, during its deliberations, the REALTOR®-supported special consumer disclosures required by HUD for FHA-insured ARM mortgages.

Loan-to-Value Ratio

Several forms of ARM mortgage products allow for negative amortization during the first few years, in order to provide a discounted up-front interest rate. The NATIONAL ASSOCIATION OF REALTORS® would caution that while this feature may make the ARM financing option attractive in its early years, the Committee must decide whether this is either feasible or desirable for those VA loans provided with no downpayment. The Committee should evaluate guidelines that would prevent such an occurrence.

Consumer Reluctance

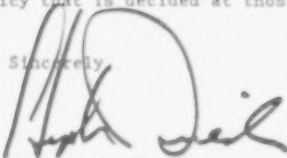
Finally, as with any new product, consumers were initially reluctant to utilize the ARM program. We believe that this is the root of the reluctance of the veterans organizations to pursue a VA-guaranteed ARM program. The NATIONAL ASSOCIATION OF REALTORS® would expect, however, that the elements of time and experience, combined with a degree of safeguards (as detailed above) would provide veterans with a safe and extremely useful home financing program.

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I would also like to point out that consumer and industry experience with the ARM product under the Department of Housing and Urban Development's FHA program (authorized by Congress to insure ARM mortgages in 1963), has demonstrated the success of the program and the ability of homebuyers (even inexperienced, first time homebuyers) to intelligently utilize this program.

The membership of the NATIONAL ASSOCIATION OF REALTORS® intends to examine this issue more fully during its Convention in November. I will be pleased to report to you the REALTOR® policy that is decided at those meetings.

Sincerely,

A handwritten signature in dark ink, appearing to read "Stephen D. Driesler", written over the word "Sincerely,".

Stephen D. Driesler
Senior Vice President

The American Legion

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For God and Country

June 30, 1987

Honorable Marcy Kaptur, Chairwoman
Subcommittee on Housing & Memorial Affairs
House Veterans Affairs Committee
337 Cannon House Office Building
Washington, DC 20515-6340

Dear Chairwoman Kaptur:

This letter will respond to the additional questions of Representative Dan Burton arising from the hearing of June 23 on the VA home loan program and the legislation, H.R. 2672, you introduced to improve the program.

1. Do you think that a mere offer by a veteran to convey a property to VA is sufficient reason to not include certain costs caused by a subsequent foreclosure in computing the veteran's debt? Should not VA properly refuse such an offer if it is not in the best interest of the government without the government suffering a penalty?

In responding to these related questions it must be stated at the outset that we are unclear on what constitutes normal business practice when obligations arising from default are settled by turning over a deed in lieu of foreclosure. After having said that, however, it does seem unlikely that a mere "offer" either would or should be binding on the VA for purposes of excluding penalty costs associated with default when calculating the veteran's debt. Moreover, it is our understanding that the technical concerns giving rise to this question have now been settled. Therefore, the need for a more detailed response has been rendered moot.

2. If it were to be determined that the proposed 30 percent guarantee would reduce the number of veterans able to obtain GI loans, would you favor it?

The short answer to this question is no. However, as we stated in our prepared statement for the hearing, the concept of converting the guaranty to a flat percentage has at least two compelling features. First, a flat percent guaranty would serve to index the guaranty. As such, it would be sheltered from inflationary trends. Second, the flat percent guaranty would enable no down payment loans to veterans on properties of greater value. This feature would be a welcome development for veterans residing in areas of the country where property is substantially more costly than in other areas.

On the other hand, however, we believe 45 percent would be a more appropriate figure for a flat percent guaranty than 30 percent as called for by the legislation. Going to a higher percent would maintain the attractiveness of home buying to veterans at the lower end of the property value spectrum.

Hopefully this response is satisfactory. Should you have further questions, please feel free to contact this office again. As always, your attention to the views of The American Legion is appreciated.

Sincerely,

Paul S. Egan, Deputy Director
National Legislative Commission



Motto: "If I cannot speak good of my comrade, I will not speak ill of him."



DISABLED AMERICAN VETERANS

NATIONAL SERVICE and LEGISLATIVE HEADQUARTERS
807 MAINE AVENUE, S.W.
WASHINGTON, D.C. 20024
(202) 554-3501

July 8, 1987

Honorable Marcy Kaptur
U.S. House of Representatives
335 Cannon House Office Building
Washington, DC 20024

Dear Congresswoman Kaptur:

Thank you for your recent letter requesting the DAV's response to several written questions submitted by Congressman Dan Burton regarding the Veterans Housing Rehabilitation and Program Improvements Act of 1987 (H.R. 2672).

The DAV is pleased to respond to your request and the following is submitted for the hearing record.

Sincerely,

STEPHEN L. EDMISTON
Deputy National Legislative Director

SLE:am
Attachment

QUESTIONS OF HONORABLE DAN BURTON OF INDIANA
TO THE DISABLED AMERICAN VETERANS
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
JUNE 23, 1987

1. Do you think that a mere offer by a veteran to convey a property to the VA is sufficient reason to not include certain costs caused by a subsequent foreclosure in computing the veteran's debt. Should not VA properly refuse such an offer if it is not in the best interest of the government without the government suffering a penalty?

Congressman Burton, the DAV supports Section 14 of H.R. 2672 -- which limits a veteran's liability when the VA has refused to accept a veteran's offer to convey property to the VA via deed-in-lieu of foreclosure procedure. Obviously, there exists the possibility that in some cases the VA should properly refuse such an offer as not in the best interest of the government. However, in recent years, the VA has not, in our view, fully provided servicing of delinquent loans due to insufficient staffing and an extremely heavy workload. Until such time as the VA has adequate staffing to fully service all delinquent loans, we believe the provisions of Section 14 of H.R. 2672 is necessary to protect the veteran's best interest.

2. If it were to be determined that the proposed 30% guaranty would reduce the number of veterans able to obtain G.I. loans, would you favor it?

In our prepared testimony, we have expressed our concern with changing the current home loan guaranty to no more than 30% of the loan amount. Clearly, those veterans seeking to purchase homes in higher cost areas, would benefit from this proposed change. However, we believe those veterans seeking to purchase homes in other than high cost areas would lose significantly from the proposed change, therefore, we do not support changing the current method of determining the maximum guaranty.